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UNIVERSITY OF ILLINOIS

QUESTIONS SET AT THE EXAMINATIONS OF CANDIDATES FOR THE CERTIFICATE OF CERTIFIED PUBLIC ACCOUNTANT IN ILLINOIS

1903-1912

PRICE 75 CENTS

URBANA
PUBLISHED BY THE UNIVERSITY

1912

THE UNIVERSITY OF ILLINOIS

EDMUND J. JAMES, Ph. D.; LL. D., President

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COURSES IN
BUSINESS ADMINISTRATION

The University of Illinois offers courses which afford special training to young men who are looking forward to business careers.

The subjects of instruction are adapted to give that general training which is valuable whatever the line of business the student intends to enter, and also to furnish training specially adapted to the particular career chosen. Among the subjects of instruction are

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Banking, in theory and practice.
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It is the purpose of this school to provide courses of training which shall prepare men to become efficient workers in the financial, traffic, and operating departments as well as in the engineering departments of steam and electric railways.

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1. COURSE IN RAILWAY CIVIL ENGINEERING.
2. COURSE IN RAILWAY ELECTRICAL ENGINEERING.
3. COURSE IN RAILWAY MECHANICAL ENGINEERING.
4. COURSE IN RAILWAY ADMINISTRATION.

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Credit balances:

Appropriation	3,600,000 00
Bonds, Series A	500,000 00
Bonds, Series B	750,000 00
Bonds, Series C	600,000 00
Bonds, Series D	1,500,000 00
Bonds, Series E	650,000 00
Bonds and Coupons due and unpaid	30,000 00
Warrants outstanding	559,000 00
Tavern License Fund	5,000 00
Laboratory Fund	6,000 00
General Tax Income	2,000,000 00
Fee Office Income	1,600,000 00
Surplus	500,000 00

Prepare journal entries closing operations for the year and classified balance sheet as at the close of the year.

6. The administrator of a will received $63,000 in cash to be distributed among the heirs and legatees under the terms of the will, as follows:

Sarah, a daughter of the deceased, after payment of the legacies, including a legacy of $1,000.00 to herself, was to receive was to receive one-fifth of the residue of the estate.

Jane, a daughter of the deceased, after payment of the legacies, was to receive one-fifht of the residue of the estate.

Anne, a daughter of the deceased, was to receive the same as Jane.

George, a son, after payment of the legacies, including a legacy of $500.00 for himself, was to receive one-fifth of the residue of the estate.

Three children of a deceased son, Jacob, were to receive legacies of $500.00 each.

Reuben, a son, was to receive one-fifth interest in the residue of the estate, subject to the payment of the legacies as mentioned and also subject to legacies of $3,000.00 each to his wife and three children.

The administrator carried out the terms of the will.

Open the books of the administrator, showing receipt of the funds, their proper distribution, payment, and closing entries.

CHICAGO, NOV. 15, 1904.

(Time 6 Hours)

1. The books of a manufacturing corporation at the close of its first year's business show sales $241,863.50; returns and allowances $18,416.38; merchandise cash discounts $13,943.87; merchandise debit balance $69,346.92; labor $52,815.33; fuel $16,219.46; shop expense $9,247.50; salaries $16,214.30; general expenses $8,342.35; advertising $52,371.39; traveling expenses $4,364.28; insurance and taxes $6,250.00. The inventory figures up a total of $13,896.12, and before the books are closed, a sufficient sum for depreciation, namely $5,000.00 is written off. The company claims that conservatively stated its net profit for the year is $18,142.10.

Arrange the amounts in the form of an Income Account, and explain fully how the company could arrive at such net profit, and give reasons therefor.

2. A corporation needing some additional capital for a short term of years, issues $300,000.00 of debenture bonds carrying 6% interest, and payable one-fifth each year for five years. Coupons are attached to the bonds maturing every six months; the bonds are sold at 90 flat.

What average rate of interest does the company pay for the money, excluding interest on interest?

3. Upon the death of a retired business man a will is found conveying real and personal property aggregating $300,000.00 to the widow for her life, and upon her death distributable equally among five children per stirpes. Among the decedent's papers is found a bond and mortgage on a piece of real estate owned by a previous deceased wife, and sold by the decedent as special guardian of her two children, Henry and Emma, both of age at father's death, who had never heard of their mother's estate, or had any accounting of it. The bond and mortgage amounting to $10,000.00 was taken in part payment for such real estate, the whole price realized having been $20,000.00. The decedent died in June, 1900, and the deceased's wife's real estate was sold in June 1890. The bond carried 6% interest, payable semi-annually on the 1st day of June and the 1st of December, and all such payments on the bond had been made.

Prepare a statement showing what would accrue to each of four children then living at the death of the widow including

the amounts to which Henry and Emma would be entitled on account of their mother's estate. Exclude and do not consider any accrued income of the estate unexpended.

4 On February 20, 1903, the Board of Commissioners for a certain county met for the purpose of preparing the annual gudget of the appropriation bill for the year 1903, said appropriation to be based upon the estimated receipts for the year, as compiled by the comptroller. Estimated receipts and appropriations are as follows:

Estimated Receipts		
Cash on hand	$ 800,000 00	
Net income from tax levy	4,000,000 00	
Income from fee offices	2,400,000 00	
Total Estimated Receipts		$7,200,000 00
Appropriations		
Principal of and interest on bonds	$ 800,000 00	
Salaries	3,800,000 00	
Supplies	1,300,000 00	
Jurors' fees	400,000 00	
Election purposes	300,000 00	
Old liabilities	60,000 00	
Buildings	140,000 00	
Contingent	400,000 00	
Total Appropriations		$7,200,000 00

Prepare journal entries placing apropriations on books. The estimated receipts were relaized, except in the item of Fee Offices, where only $2,350,000.00 was earned. The entire appropriation was expended. Prepare journal entries, trial balance, and balance sheet, recording the results.

5. The Universal Cash Register Company with an authorized capital of $10,000,000.00, of which $5,000,000.00 has been issued at 80 cents on the dollar is engaged in the manufacture of cash registers, and supplies pertaining thereto. The sale of these cash registers, etc., is accomplished by means of a large number of branch houses and agencies, and all goods shipped by the factory to these branch houses, etc., are put on consignment account at list prices. In addition to the sale of new cash registers, they also sell a large quantity of second-hand registers, which they have obtained by

taking second-hand registers in part payment of new registers. These second-hand registers are also put on consignment account, but not at list prices, but at actual cost to the Company; the reason for this procedure being that they have no fixed selling price for second-hand machines, their branch house managers and agents being authorized to sell them at as high a figure as they can get, but on no account to allow themselves to become over-stocked with them. It often happens that, on receiving the second-hand register at a branch, it is found advisable to ship same to the factory, so that certain repairs may be effected to put it in saleable condition. When these repairs are completed, the second-hand register may be shipped to some entirely different point from which it originally came.

Branch house managers are paid a fixed salary, but attached to each branch house are a number of salesmen who receive no salary, but are paid on a purely commission basis, and on the same terms as those given to agents. For the purpose of this question it will be assumed that no register is ever sold without a commission being paid to a salesman or agent, and on the sale of every new register the rate of commission is thirty (30) per cent. But when a second-hand machine is accepted in part payment of a new register, the salesman or agent only receives twenty (20) per cent of the net amount that will be received in cash and notes from the customer. On sales of second-hand machines a commission of twenty per cent is paid. The terms to customers are 25% cash, and the balance in ten equal monthly installments, a separate note being given for each installment. Upon failure of a purchaser to pay any part of the purchase price, the register is pulled (that is, taken out and returned to the agency or branch house selling same), and the agent or salesman then only receives a pro-rate amount of his commission, the actual cash collected being the basis of his commission. The money that has been paid in on account of a register which is pulled is clear profit, barring any legal expense in conection with same, and the customer's open account or notes receivable account is closed out by a transfer to an account termed "Retained Payments." The branch houses and agents keep no accounts, all acounts and collections being attended to at the head office. Amongst others, the following accounts are kept on the general books:

New Register Consigned Stock Acount (always debit balance).

New Register Consignment Acocunt (always credit balance, and offsetting balance of Consigned Stock Acount).

Second-hand Consigned Stock Account.

Second-hand Consignment Account.

New Register Sales Account.

Second-hand Register Sales Account.

New Register Commission Account.

Second-hand Register Commission Account.

Notes Receivable Ledger Account.

Customers Ledger Account.

Second-hand Register Cost Acount.

Agent and Salesman's Commission Ledger Account.

Retained Payments.

As a check upon the New Register Commission Account, a rule is laid down that in all sales of new registers, whether a second-hand register be accepted in part payment or not, the New Register Commission Account must be charged with 30% of the list price of register sold.

Draw up journal entries for the following transactions:

(a) Herbert Davison, a salesman in the Chicago branch, sells a new Cash Register to the Madison Restaurant Company, having a list price of $240.00. The restaurant company one month after delivery of the register pays cash of $60.00, and gives ten installment notes of $18.00 each, the first one due one month after date, the second two months after date, and so on. After meeting the first five notes, the Madison Restaurant Company becomes bankrupt, and the Universal Cash Register Company pulls the register. Show all of the entries necessitated by the above transactions, including commissions to salesman.

(b) Thomas Smith, an agent for the company, sells a cash register to Herbert Findlay for $350.00, and takes in part payment a second-hand register at $50.00. After delivery of the new register to Herbert Findlay and the receipt at the factory of the second-hand register, a settlement of the account is effected by a cash payment of $75.00 and the acceptance by the Company of ten installment notes of $22.50 each made by Herbert Findlay. The latter pays the first two notes, but fails to make any more payments on the other notes. The register is, therefore, pulled. Show all of the

entries necessitated by the above transactions, including commission to Thomas Smith, the agent.

(c) The second-hand register returned to the factory and referred to in the last question has repairs put upon it costing $25.00, and it is then shipped to the New York Branch and consigned to them at the actual cost to the Universal Cash Register Company up to that time. A salesman, Edgar Robinson, sells the register to Abner Johnson for $100.00, and the latter settles for same by paying cash down. Show all of the entries necessitated by the above transaction including commission to Edgar Robinson, and also state what profit the Company made on this register, and how you arrive at same.

6. The shareholders of a company with bonds outstanding of $500,000.00 bearing interest at 5% per annum, resolve to provide for paying off the same when they fall due on December 31st, 1912, by investing $50,000.00 per annum out of the profits and allowing the same to accumulate with interest; this arrangement to commence with the balance-sheet for the year ending December 31st, 1904. Show the "Bond Redemption Account" on December 31st, 1908, on the assumption that on December 31st, 1904, and on the same day in each year following, the $50,000.00 referred to was invested in 4 per cent Railroad Bonds at par, that the interest thereon to June 30th and December 31st in each year was received in July and January following, and was allowed to accumulate in the bank until the 30th June and 31st December following, when it was invested in the same class of securities at the same price in multiples of $1,000.00.

CHICAGO, MAY 9, 1905.

(Time 6 Hours.)

1. A corporation is burned out of its factory, and leases other property for long term of years, at an annual rental of $6,000.00. Subsequently the owner of the property donates $5,000 in cash to apply on cost of fitting up the building for the tenant's use.

Make journal entries covering the donation and explain its treatment.

2. A corporation formed to acquire and hold the capital stock

of four manufacturing companies. In addition to the investments it is desired to carry controlling accounts with each subsidiary company on the books of the holding company.

Make form of journal entries for investments, and controlling entries necessary at the close of the first year.

3. The "A" corporation to prevent injurious competition purchases from the "B" corporation, a competing firm, the whole of its business as a going concern on January 1, 1905, for $500,000.00 subject, however, to certain conditions stated below.

The "B" corporation agrees to continue trading under its old management on behalf of and at the expense of the "A" corporation until December 31, 1905, when if the profits earned amount to less than $40,000.00 the "A" corporation reserves to itself the right to cancel the agreement for purchase on payment of the difference between the earnings for the year and $40,000.

At December 31, 1905, the profits for the year earned by the "B" corporation amount to $50,000, and the "A" corporation actually takes over the "B" croporation, paying $450,000 in full settlement.

Criticise the following methods of treating the transaction, and state which you consider correct, giving reasons for your opinion:

(a) Debit Investment Account with $500,000 and credit Profit and Loss with $50,000 earnings.

(b) Debit Investment Account with $450,000.

(c) Debit Investment Account with $500,000.00 and credit Special Reserve Account with $50,000.

It may be taken as an ascertained fact that the assets are fully worth $500,000 at the time of purchase by the "A" corporation.

4. A Share and Investment Corporation promoted a subsidiary corporation, and on January 1, 1905, subscribe $30,000 worth of stock receiving also $70,000 stock as consideration for their services as promoted. Their promotion expenses amounted to $500. Sales of their holding in the subsidiary corporation are made as follows:

	Stock	Price Realized
February	$ 5,000 00	$1,000 00
March	10,000 00	2,500 00
April	10,000 00	3,000 00
May	10,000 00	5,500 00

June	10,000 00	7,500 00
October	5,000 00	1,500 00

At December 31, 1905, the parent corporation's financial year closes, at which date they hold a balance of $50,000 stock, the current market price being $25 per $100 stock.

Give detailed ledger account, bringing down the balance at the figure at which it should be shown on the balance sheet, and assign your reasons for the valuation you place upon it.

5. Two banks, we will designate as A and B have decided to consolidate. Statements of the condition of the two banks at the time of liquidation and proposed consolidation are as follows:

BANK A.

Assets	$1,000,000 00
Liabilities.	
Capital stock..............................	$ 600,000 00
Surplus	400,000 00

BANK B.

Assets	$ 400,000 00
Liabilities.	
Capital stock	$ 300,000 00
Surplus	100,000 00

The earnings have been, practically, for a number of years: A, $50,000 per year; B, $30,000 per year.

The new organization is to be capitalized at $1,000,000, viz.: $800,000 capital stock, and $200,000 surplus.

It has been proposed that the stock holders of the two banks pay in for holdings in the new bank, as follows:

Bank A, 5/8 of stock and surplus; Bank B, 3/8 of stock and surplus. In considering this proposal, objections were raised on the ground that it was not equitable. Who are the probable objectors, and what would be the equitable allotment of stock, and the amount that each should pay into surplus?

Explain and prepare opening balance sheet showing capital stock in separate allotments, and likewise the payments into surplus.

6. A syndicate having invested in a coal property, presents the following balance sheet:

ASSETS.

Acreage	$1,500,000 00
Physical equipment	500,000 00

LIABILITIES.

Capital stock	$1,000,000 00
Bonds, 1st Mtg., 5s	1,000,000 00

The syndicate estimates it will mine and sell 1,250,000 tons per year, and the life of the mines at this rate will be 25 years.

The surface acreage is not marketable.

It will require $50,000 expended annually in additional equipment. This physical equiment will carry only a small salvage value at the expiration of 25 years.

The bonds are to be called at the rate of $40,000 per annum.

At what profit per ton must the coal be sold, so that a dividend of seven per cent, can be paid yearly on the stock, and leave at the close of business 25 years hence, sufficient convertible assets to pay the stock holders in cash, the par value of their stock? Explain.

Make a statement winding up the syndicate's affairs, assuming the general correctness of the estimates.

CHICAGO, MAY 7, 1906.

(Time 6 Hours.)

1. In connection with your general merchandise business, you are a managing partner on a joint account, where your one-half of merchandise cost was $15,000.00. Charges posted $150.00; Total Sales $8,000.00, and Joint Unsold Merchandise $13,500.00. Settlement charges were: Storage $60.00; Commission 5% on Sales.

Prepare ledger account, and show journal entries closing the account on your books, you giving your partner, Robert Bailey, your note for his one-half of net proceeds.

Suppose your one-half first cost was $10,000.00. Charges were $9,000; Sales $4,500.00; Storage $20.00; Joint Property unsold $2,100.00; Commission 5%.

Prepare ledger account, and show journal entries closing the account on your books, charging Bailey with his share of the deficiency.

2. A branch office business was started the first of the year, the head office advancing $5,000.00 cash. During the first year merchandise was shipped to branch, invoiced at $75,000.00.

An auditor checking up the business at the close of the year, finds the following:

Merchandise sales were $60,000.00, with selling price of goods 20% advance on invoice.

Proper vouchers were on file duly receipted for following payments:

Rebates and allowances on damaged goods	$ 1,500 00
Salaries and other expenses	4,500 00
Freights	2,500 00

The books also showed:

Remittances to head office	$35,000 00
Uncollected accounts	15,000 00

the balance of the sales having been realized in cash, less rebates and allowances as noted.

The cash on hand and inventory of unsold goods, together with the foregoing records, properly account for everything.

Prepare statement, such as an auditor would make in reporting to the head office, balancing the business of the branch house.

3. John Smith dies on October 15, 1901, leaving a will in which he names certain legacies, which, in the aggregate amount to $50,000.00. The executors are then instructed (1) to use their best judgment in the disposition of such assets as may be necessary to liquidate all his liabilities; (2) to pay to his widow Mrs. Sarah Smith an allowance at the rate of $8,000.00 per annum from the date of his death to the date of the distribution of the residue of his estate; and (3) to distribute the residue of the estate after all claims and legacies have been met, as follows: ⅓ to his widow and ⅔ to certain trustees named in the will.

After his death the executors drew up an inventory of the estate, which, upon being appraised, show the following condition:

Assets.

Real Estate	$589,000 00
Corporation Stock	320,000 00
Bonds with premium added	460,928 00
Bills Receivable	3,482 00

Land Contracts	37,500 00
Interest Accrued on Bonds, Bills Receivable and Land Contracts	7,890 00
Accounts Receivable	2,000 00
Cash	29,000 00

LIABILITIES.

Mortgage on Improved City Real Estate	$ 50,000 00
Bills Payable	150,000 00
Accounts Payable	1,980 00
Funeral Expenses	1,000 00
Interest Accrued on Demand Notes	1,200 00

Six months after the inventory has been filed it develops that John Smith had endorsed the note of Joseph Stevens for $15,000.00, and had discounted same with his bankers. Upon the note coming due, Joseph Stevens failed to meet same. The bank filed a claim against the estate of John Smith for the amount, which was duly paid by the executors.

It is, however, believed that in a course of time this note of Joseph Stevens can be realized upon. One year exactly after the death of John Smith, the executors distribute the residue of the estate, and close the books. The following transactions in addition to those enumerated or suggested above, have taken place during the year.

75 Bonds Par $1,000.00 and inventoried at 110 were sold at 108¾.

300 Shares Par $100.00 and inventoried at 85 were sold at 90.

400 Shares Par $100.00 and inventoried at 90 were sold at an increase of 10% of their inventory valuation.

The Real Estate which was encumbered by a mortgage of $50,000.00 was sold by consent of the Probate Court and of the widow for a sum of $35,000.00 in excess of the mortgage, the purchaser assuming the mortgage.

The profits arise from the following sources:

Dividends	$15,000 00
Interest on Bonds	18,500 00
Interest on Bills Receivable and Land Contracts	2,400 00
Net Rentals after paying Taxes, etc.	9,000 00

The charges consist of the following items:

Office Expenses	5,000 00
Interest on Mortgage and Bills Payable	4,750 00
Premium on Bonds written off	2,000 00
Executors' Fees allowed by Court	15,000 00

The accrued interest on bonds, bills receivable and land contracts at the close of the executor's term of office is found to amount to $6,100.00.

Set up journal and cash book entries and ledger account, and prepare suitable summarized statement of executor's transactions for presentation to the beneficiaries.

4. A manufacturing company that had been in business for a number of years, began operations the first of a certain year in an entirely new plant, built to last 20 years, the building of which was made necessary by wear and tear and obsolescence affecting the old plant. The new equipment cost $200,000.00, for which the company issued 10 obligations of $20,000.00 each at 6%, maturing the first of each year following the date of their occupancy of the new plant. The old plant has been disposed of at a scrap value of $10,000.00 when it was vacated, at which time the balance sheet of the company showed:

ASSETS.

Plant	$225,000 00	
Less scrap value	10,000 00	$215,000 00
Other Assets		80,000 00
		$295,000 00

LIABILITIES.

Capital Stock		$200,000 00
Surplus		50,000 00
Profit and Loss		25,000 00
Gross Sales for year	$100,000 00	
Less Operating Expenses	75,000 00	
Floating Debt		20,000 00
		$295,000 00

The new plant was at once added to the asset values at $200,000.00, and the company's liability on its obligations shown for the same amount.

Owing to competition and limited use of the products, the sales have been uniform for a number of years, and could not be expected to increase, but the new and improved machinery, with better methods of manufacture, saves 10% in operating expenses (including therein 6% interest on the borrowed money) by their method of accounting.

The books have shown a net earning of $25,000.00 per year, as follows:

Gross Sales	$100,000 00
Operating Expenses:	
Manufacturing Expenses:	
Repairs " :	
Selling " :	
General " :	75,000 00
Taxes " :	
Insurance " :	
Ground Lease Rentals :	
Net	$ 25,000 00

At the close of the first year's operations of the new plant, the balance sheet showed as follows:

ASSETS

Plant	$415,000 00
Other Assets	112,500 00
	$527,500 00

LIABILITIES

Capital Stock		$200,000 00
Surplus		75,000 00
Profit and Loss		32,500 00
Sales for year	$100,000 00	
Less Operating Expenses	67,500 00	
Notes Payable		200,000 00
Floating Debt		20,000 00
		$527,500 00

The balance sheet is submitted, and a dividend declared.

Discuss all the foregoing, and illustrate your conclusions, and draw up statement showing what, in your opinion, is the true condition of the company.

5. Two printing and stationery houses decided to combine their businesses for the purpose of reducing expenses. An accountant is called in to examine the books of each company and to report upon the financial condition of each and also upon the past profits. Owing to the fact that corporation A has never separated its purchases as between its retail and its manufacturing department, he finds it impossible to prepare a combined profit and loss account showing the gross profit of the retail departments and the manufacturing departments of each company. The following statement, however, exhibits a summary of their combined trading accounts:

Total Sales		$372,000 00
Cost of Materials in Goods Sold	$185,000 00	
Manufacturing Labor	64,000 00	249,000 00
Gross Profit		$123,000 00
Less Total Expenses		93,000 00
Net Profit		$ 30,000 00

The amalgamation is effected, and after carrying on the business for twelve months an inventory is taken and the books closed. It is found that instead of realizing a profit of $30,000.00, they have only made a profit of $14,000.

An analysis of the various accounts, made by their accountant, showed the following summarized statement:

RETAIL DEPARTMENT.

Total Sales		$176,000 00	
Less Cost of Merchandise		119,000 00	
Gross Profits Retail Department			$57,000 00

MANUFACTURING DEPARTMENT.

Total Sales		$181,000 00	
Less Cost of Material in Mdse.	$64,000 00		
Less Cost Manufacturing Labor	63,000 00	127,000 00	

Gross Profits Manufacturing Dep't.......	54,000 00
	$111,000 00
Less Expenses	97,000 00
	$ 14,000 00

As a basis of comparison with the former year's results, the percentages of corporation B in respect to their retail department and manufacturing department, may be accepted as applying to the whole of that year's results of the combined companies. These percentages were as follows:

RETAIL DEPARTMENT.

Sales	100.0%
Cost of Merchandise........................	70.5%
Gross Profit	29.5%
	100.0%

MANUFACTURING DEPARTMENT.

Sales	100.0%
Cost of Material in Merchandise..............	30.0%
Cost of Manufacturing Labor.................	35.5%
	65.5%
Gross Profit	34.5%

From the above information work out by percentages and show the causes affecting the reduction in profits from $30,000 to $14,000.

6. On the 31st of December, 1905, the books of the A and B Co. showed the following Trial Balance before making closing entries:

Inventory, Jan. 1st, 1905..................	$ 125,000 00	
Sales		$1,280,658 00
Cash on hand and in Bank...............	75,120 00	
Petty Cash Account.....................		27 00
Purchases	820,500 00	
Returns	5,315 00	

Goods on Consignment with European Agents at selling prices	$17,000 00		
Freight, Insurance and Expenses on same	1,500 00		
		18,500 00	
Salaries		12,600 00	
Wages		135,418 00	
Rent and Taxes		19,820 00	
Factory Expenses		64,582 00	
Accounts Receivable (Subject to 5% Discount at one month)		400,625 00	
Accounts Payable (Subject to 2% Discount at one month)			85,200 00
Bills Payable			25,000 00
Furniture and Fixtures		26,000 00	
Premiums paid on purchase of Lease (Lease acquired January 1st, 1905, expires Dec. 31st, 1914)		29,500 00	
Miscellaneous Expenses		27,825 00	
Surplus as at Jan. 1st, 1905			133,920 00
3000 Shares in the "O. K." Company at cost)		300,000 00	
Capital Stock			500,000 00
Dividends on Investments			36,000 00
		$2,060,805 00	$2,060,805 00

Prepare Profit and Loss Account and Balance Sheet after taking into consideration the following matters and making any adjustments in the accounts which you consider advisable:

The inventory of merchandise on hand Dec. 31, 1906, amounts to $117,850.00. The amount of bills payable, $25,000.00, falls due March 31st, 1906, and was discounted Oct. 1st, 1905, $625.00 being charged to miscellaneous expenses for discount as at that date.

The last divident on the "O. K." company stock was received in May, 1905, and was at the rate of 6% for the year ending April 30, 1905.

CHICAGO, MAY 6, 1907.

(Time 6 Hours.)

1. As on January 1st 1890, a corporation is formed for the purpose of acquiring and conducting a cemetery, and starts business on that date with a capital stock of $100,000.00 paid for in cash. The company first purchases forty acres of land within easy access of a large city, paying for same at the rate of $1,000 per acre. It proceeds to expend considerable sums of money in the purchase and planting of trees and shrubs, laying out drives and pathways, sodding, building of glass houses, etc. The policy of the company is to withhold the selling of burial lots until after January 1st, 1900, so as to allow the trees and shrubs to become more fully grown and in the expectation that with the growth of the city their property will become more valuable. In the year 1900 the company commences selling burial lots, and all are sold under a special provision whereby the company agrees to apply fifty per cent of all cash received on sales in the purchase of four per cent bonds until a total of $150,000.00 of such bonds shall have been so purchased. The agreement further provides that after all lots have been sold the company will wind up its affairs and the above bonds until a total of $150,000.00 of such bonds shall have been so shall use the income of such bonds for keeping up the cemetery. It is the custom of the company not to purchase bonds until after the close of each fiscal year and after the total sales of that year have been determined.

In March, 1905, the directors of the company find that, while they believe the books to be in balance, no proper entries have been recorded showing total cost of their investment, and that no entries have been made with respect to the fund of $150,000.00 from which said bonds are to be purchased. While cash dividends have been declared and paid, the directors are in ignorance of what their profits actually have been and how much of the dividends so received have been out of their profits and how much in the nature of liquidating dividends, representing a return of their original investment. They, therefore, employ a certified public accountant to determine all these matters and to make the necessary entries on their books and render report to them. After determining the clerical accuracy of the books the accountant draws off the two trial balances given below and from them prepares the necessary entries and obtains the information required by the directors.

TRIAL BALANCES.

DEBITS:	Jan. 1, 1900	Jan. 1, 1905
Real estate	$ 40,000 00	$ 40,000 00
Improvements	45,000 00	45,000 00
Bonds	....	125,000 00
Administration expense	20,000 00	46,000 00
Upkeep of cemetery	....	45,000 00
Dividends paid	....	130,000 00
Cash	7,000 00	40,800 00
	$112,000 00	471,800 00

CREDITS:		
Interest account representing interest at 4 per cent on unexpended cash during development period	$ 12,000 00	$ 12,000 00
Bond interest account	....	9,800 00
Sale of lots	....	350,000 00
Capital stock	100,000 00	100,000 00
	$112,000 00	$471,800 00

An inventory of their unsold lots as on January -, 1905, shows that they have ten acres left unsold of equally desirable character with that already sold. Draw up entries, prepare profit and loss account for period and balance sheet as on January 1st, 1905, in same manner as if you had been the accountant engaged. In any interest calculation use four per cent simple interest.

2. Three-fourths of the capital stock of Company A and two-thirds of the capital stock of Company B is owned by the holding Company C. Company C purchased the above stock of Company A at $150 in February, 1905, on the basis of the balance sheet given below, dated January 1, 1905:

ASSETS.

Real estate, plant, machinery, etc.	$100,000
Inventory merchandise	100,000
Accounts and bills receivable	75,000
Cash	25,000
	$300,000

LIABIITIES.

Capital stock	$150,000
Bills payable	75,000
Surplus	75,000
	$300,000

During the year 1905 Company A made a net profit after providing for depreciation, bad debts, etc., of $5,000.00, and the directors of Company A declare and pay a dividend of 10% as of February 15, 1906.

The stock of Company B owned by Company C was purchased in March, 1905, at 125 on the basis of the balance sheet below, dated January 1, 1905:

ASSETS.

Real estate, plant, machinery, etc	$450,000
Patents	50,000
Inventory merchandise	200,000
Accounts receivable	150,000
Cash	37,500
	$887,500

LIABILITIES.

Capital Stock	$500,000
Bonded indebtedness	200,000
Accounts payable	62,500
Surplus	125,000
	$887,500

During the year 1905 Company B makes a net profit of $50,000.00 after making all necessary provisions for depreciation on plant, machinery and patents, as also for bad debts, and the directors of Company B declare and pay a dividend of 8% as on February 14, 1906.

Draw up all the necessary entries in respect to the dividends of the above two companies as they should appear on the books of Company C, the holding company. State reasons for same.

3. A close corporation, incorporated under the laws of the State of Illinois, known as Company A, purchases the entire outstanding capital stock of $35,000.00 of Company B in the year 1905 for the sum of $52,500.00. A statement of assets and liabilities as on January 1, 1906, of each company is given below:

COMPANY A.

Assets.

Plant, machinery, etc.	$ 457,500
Merchandise	400,000
Investment in Company B's capital stock	52,500
Due by Company B on current account	220,000
Accounts receivable	400,000
Cash	45,000
	$ 1,575,000

Liabilities.

Capital stock	$ 1,000,000
Surplus	500,000
Accounts payable	75,000
	$ 1,575,000

COMPANY B.

Assets.

Plant, machinery, etc.	$ 100,000
Merchandise	95,000
Unsubscribed capital stock	65,000
Accounts receivable	80,000
Cash	15,000
	$ 355,000

Liabilities.

Capital Stock	$ 100,000
Surplus	35,000
Due to Company A	220,000
	$ 355,000

The directors of Company A realizing that it is illegal for an Illinois corporation to own the capital stock of another corporation, and furthermore desiring to eliminate the indebtedness of $220,000 due by Company B to Company A determine to sell the stock that they own in Company B to their own shareholders at 150. Company B increases its capital stock from $100,000 to $300,000, declares a stock dividend of 35% and sells

2300 shares (shares $100 each) to the stockholders of Company A at par. Company A declares and pays a dividend of 28¼% to its shareholders. Company B then liquidates its indebtedness to Company A.

Prepare journal and cash book entries that each company should make to record above transactions, with suitable explanations, and prepare balance sheet of each corporation after completion of above transactions.

In this question it is to be assumed that the shareholders in Company A buy the stock of Company B in the same ratio as their holdings in the stock of Company A bear to one another.

4. The trial balance of the American Mfg. Co., as at December 31, 1906, before closing the books for the year is given below. In addition to the information obtainable from the trial balance, the following data must be taken into consideration in closing the books:

Inventory of merchandise at Dec. 31, 1906, $90,000.

Inventory of tools at Dec. 31, 1906, $4,500.

Inventory of patterns at Dec. 31, 1906, $4,000.

Depreciation on buildings at rate of 2½ per cent.

Depreciation on machinery at rate of 10 per cent.

Depreciation on patents at rate of 6 per cent.

Depreciation on office furniture and fixtures at rate of 10 per cent.

Half of 1 per cent of the net sales is charged each year to profit and loss and credited to reserve for bad debts.

As this company owns its own plant, it is its custom to treat its investment in real estate and buildings as a separate investment from which it expects to receive 5 per cent and to charge the cost of maintaining same, plus interest on investment, to the cost of manufacture as rent.

Prepare closing journal entries and prepare following statements:

Balance sheet as at January 1, 1907.

Real estate operating account.

Profit and loss account showing—

(I) Cost of manufacturing and gross profit.

(II) Cost of selling and administration and net profit.

Surplus account.

Insurance unexpired and accrued accounts need not be considered in this question,

TRIAL BALANCE AS AT DECEMBER 31, 1906.

Real Estate	$ 25,000	
Buildings	50,000	
Machinery	40,000	
Tools	7,000	
Patents	25,000	
Patterns	5,000	
Merchandise purchase account	420,000	
Bills receivable	1,500	
Accounts receivable	250,000	
Insurance on buildings	300	
Insurance on machinery, tools and patterns	500	
Insurance on merchandise	650	
Taxes, real estate	1,500	
Interest general	7,000	
Bond interest	2,500	
Cash	45,000	
Labor, productive	310,000	
Labor, unproductive	55,000	
Power	21,000	
Repairs to building	950	
Repairs to machinery	1,310	
Factory expenses	3,010	
Employers' liability	4,000	
Office pay roll	18,000	
Inventory merchandise January 1, 1906,	75,000	
Return sales account	41,000	
Merchandise sales account		—$1,050,500
Allowances	10,900	
Office furniture and fixtures	5,700	
Salaries to officers	15,000	
Postage	2,000	
Telegrams and telephones	1,800	
Taxes, personal property	1,000	
Collection and exchange	700	
Stationery and printing	3,050	
Freight in	23,000	

Freight out	11,000	
Cartage and express	3,750	
Bonding of employes (office)	250	
Traveling expense, salesmen	17,500	
Salesmen's commissions and salaries	40,000	
Bad debts	7,400	
Bond account		40,000
Bills payable		100,000
Accounts payable		43,000
Surplus		39,020
Capital stock		200,000
Reserves to provide for depreciation on		
Buildings		5,250
Machinery		12,500
Patents		7,500
Office furniture and fixtures		2,500
Bad debts		13,000
	$1,553,270	$1,553,270

5. An insurance firm acts as general agent for two insurance companies—Company A and Company B. On January 1, 1907, the books of the general agent disclose the following financial conditions:

ASSETS.

Cash	$ 2,340	
Agents Ledger, Company A	10,980	
Agents Ledger, Company B	15,360	
Furniture and fixtures	1,000	$29,680

LIABILITIES

Due to Company A	$ 5,890	
Due to Company B	7,437	
Partners Account	16,353	$29,680

By treaty agreement between companies A and B, this general agent has to reinsure 30% of all A's risks in Company B, and 30% of all B's risks in Company A. The general agents receive from each company a commission of 35% on the net business written

each month. The general agents pay 20% commission on the net business to their agents, thus making net 15% for themselves

The agents of Company A report to the general agents premiums during January of $12,000, and return premiums of $2,000.

The agents of Company B report to the general agents premiums during January of $15,500, and return premiums of $2,750.

The expenses of the general agents during January amount to $2,000, and the partners' withdrawals amount to $1,000. They receive in cash from agents of Company A the sum of $11,000, and from agents of Company B the sum of $12,500. They pay to their companies during January their indebtedness as on the first of the month.

Prepare journal and cash book entries recording above transactions, taking into consideration reinsurances, commissions, etc., and prepare statement of assets and liabilities of the general agents after closing balance of month's profit into partner's accounts.

6. In 1895 the Chicago Mfg. Company purchase real estate costing $12,000, erect a building for $30,000, and purchase machinery costing $25,000. No further purchases are made and on January 1, 1905, a balance sheet of the Company discloses the following condition:

ASSETS		
Real Estate ....$	12,000	
Buildings	30,000	
Machinery	25,000	
Merchandise Inventory	60,000	
Accounts Receivable	75,000	
Cash	10,000	$ 212,000
LIABILITIES		
Capital Stock ....$	150,000	
Surplus	23,500	
Reserve for Depreciation		
On Buildings	7,500	
On Machinery	15,000	
Accounts payable	16,000	$ 212,000

On May 16, 1905, their factory is burnt down, a total loss ensuing. Their books of acount as on that date show the following ledger balances;

Debit Balances—		
Real Estate	$ 12,000	
Buildings	30,000	
Machinery	25,000	
Merchandise inventory, Jan. 1, 1905	60,000	
Purchases	150,000	
Labor and other factory cost	60,000	
General expenses	45,000	
Accounts receivable	73,000	
Cash	32,000	
		$ 487,000
Credit Balances—		
Capital Stock	$ 150,000	
Surplus	23,500	
Reserve for depreciation		
On buildings	7,500	
On machinery	15,000	
Sales (net)	280,000	
Accounts receivable	73,000	
		$ 487,000

For the years 1902, 1903 and 1904 their books showed a gross profit on manufacturing averaging 25 per cent of the net sales. The company, however, only succeeds in obtaining $55,000 from the Fire Insurance Companies for merchandise lost.

In respect to the buildings and machinery the companies acknowledge that the cost of replacing same would be 10 per cent higher in 1905 than in 1895 and after taking this fact into consideration and determining what they consider fair depreciation they settle these two items as follows: Building $28,000, machinery $17,500. The company erects a new building costing $40,000 and purchases machinery costing $35,000 and finding that the value of its real estate is now $24,000 it makes book entry to so record it.

Prepare cash book and journal entries to properly record all of above transactions, losses or gains due to fire, actual trading profit from Jan. 1, 1905, to date of fire and balance sheet after making all above entries. For purposes of this question assume no accounts receivable collected or acounts payable paid.

CHICAGO, ILL., Dec. 2, 1907.

(Time, 6 hours.)

1. A corporation's balance sheets for August, 1907, and September, 1907, were respectively as follows:

Assets:	August, 1907.
Plant and Equipment	$4,000,000 00
Furniture	6,000 00
Tools	3,000 00
Stable	3,811 28
Cash	15,250 36
Material Supplies	30,750 28
Accounts Receivable	28,920 13
Unexpired Insurance	510 29
Total	$4,088,242 34
Liabilities:	
Capital Stock	$2,500,000 00
Bonds	1,350,000 00
Accounts Payable	31,336 28
Bills Payable	26,240 12
Accrued Taxes	3,500 00
Accrued Interest	5,625 00
Profit and Loss	171,540 94
Total	$4,088,242 34

Assets:	September, 1907.
Plant and Equipment	$4,012,310 21
Furniture	6,205 58
Tools	3,218 86
Stable	4,009 37
Cash	8,328 29
Material Supplies	39,280 17
Accounts Receivable	32,321 83
Unexpired Insurance	832 12
Total	$4,106,506 43

Liabilities:

Capital Stock	$2,500,000 00
Bonds	1,362,000 00
Accounts Payable	33,445 57
Bills Payable	18,240 12
Accrued Taxes	4,000 00
Accrued Interest	11,250 00
Profit and Loss	177,570 72
Total	$4,106,506 43

Analyze the differences in the corresponding accounts for the period and show disposition of increased resources.

2. Under the laws of the State of Maine, certain companies were taken over by a newly organized corporation which bought their entire assets and conducted the business for several months before it was discovered that the inventories upon which the transaction was first based were overstated to the extent of $10,000 in the case of one of the constituent companies by reason of a clerical error. It was further found that it would be impracticable to recover said $10,000, or any portion of it, from any of the original companies, or from any of the original stockholders.

The balance sheet of the Maine corporation, prior to the discovery of the error in inventory, was as follows:

Plant	$268,137 00	
Good Will and Patents	28,967 49	
Cash	5,638 35	
Bills Receivable	13,282 22	
Accounts Receivable	117,203 88	
Inventories	232,751 42	$665,980 36
Capital Stock	$500,000 00	
Accounts Payable	22,684 26	
Bills Payable	102,000 00	
Surplus	41,296 10	$665,980 36

What entries would the book-keeper be justified in making to adjust the accounts? Give reasons for your answer.

3. The Zero Manufacturing Co. (incorporated under the laws of New Jersey) has a capital of $40,000 which is held as follows: A $21,000, B $2,000, C $8,500, D $8,500. On December 31, 1906,

there is an undivided surplus of $34,576. A disposes of his entire interest in the concern for $35,000, which is paid to him by B, C and D out of the company funds. B then agrees to dispose of his holdings at their book value as determined immediately after A's retirement.

Draft entries covering the transaction and show amount to be paid to B and the apportionment of C and D's remaining interests.

4. The ledger balances of the Alpha Brewing Company at the end of the year 1906 appear as follows:

Capital Stock			$ 350,000 00
Treasury Stock		$ 30,000 00	
Bonds			25,000 00
Real Estate		36,782 10	
Buildings		103,285 25	
Machinery		57,463 41	
Horses		7,585 00	
Wagons and Harness		5,210 08	
Stationary Cooperage		23,409 87	
Floating Cooperage		12,705 28	
Signs		7,648 93	
Saloon Fixtures		15,784 25	
Office Furniture		1,285 10	
Bills Receivable		24,710 85	
Accounts Receivable		38,983 42	
Cash		60,562 07	
Accounts Payable			6,575 89
Inventory, Jan. 1, '05, Beer, Malt, Hops, Grits and Supplies		25,810 92	
Reserve for Depreciation:			
Machinery	$6,210 85		
Floating Cooperage	2,382 72		
Stationary Cooperage	1,008 10		
Signs	3,710 25		
Saloon Fixtures	5,282 84		
Office Furniture	285 75		
Horses	2,408 09		
Wagons and Harness	1,224 82		22,513 42
Purchases in 1905—Malt, Hops, Grits, etc.		82,510 75	
Fuel		4,805 92	

Water	1,304 28	
Lighting Expense	582 29	
Brewery Labor	24,285 92	
Brewmaster	4,000 00	
Revenue Stamps	85,725 00	
Beer Sales		342,423 50
Discount on Sales	86,582 19	
Building Repairs	1,242 85	
Saloon Expense	1,187 10	
Machinery Repairs	1,572 25	
Salaries—Officers and Clerks	6,210 83	
Drivers' Spending Money	5,708 25	
Stable Labor	11,642 82	
Stable Expense and Feed	5,242 10	
Interest on Bonds	750 00	
Wagon and Harness Repairs	782 19	
Charity	647 33	
Advertising	1,528 19	
Discount on Purchases		764 85
Interest Received		6,210 82
Insurance	2,583 41	
Taxes	2,237 88	
Office Expense	385 75	
General Expense	1,322 18	
Undivided Profits—Jan. 1, 1905		30,577 53
	$ 784,066 01	$ 784,066 01

The Inventory December 31, 1906, is:

Beer, Malt, Hops, Grits and Supplies	$ 42,708 23
Unexpired Insurance	810 25
Fuel	385 25
Taxes prepaid	575 25
Feed	185 00
Revenue Stamps	1,825 00

Provide

5 per cent Depreciation on Machinery.
5 per cent Depreciation on Stationary Cooperage.
10 per cent Depreciation on Floating Cooperage.
20 per cent Depreciation on Signs.

15 per cent Depreciation on Saloon Fixtures.
5 per cent Depreciation on Office Furniture.
20 per cent Depreciation on Horses.
10 per cent Depreciation on Wagons and Harness.
Charge off Bad Debts $1,282.19.

Close the books: prepare Trading Statement, Profit and Loss Statement and Final Balance Sheet.

5. At the close of the first year, after engaging in business, the ledger balances of an Illinois fire insurance company may be assumed to be correctly stated as follows:

Losses adjusted and paid	$ 16,785 90	
Losses adjusted, not paid	5,210 85	
Premiums in hands of Agents	7,892 54	
Capital		$ 200,000 00
Surplus		100,000 00
Premiums		97,500 00
Interest		8,942 50
Commissions	26,847 25	
Taxes	1,510 83	
Salaries	7,428 10	
General Expenses	16,582 72	
Investments and Loans	290,150 69	
Office Furniture	2,495 10	
Stationery and Supplies (Inventory)	1,828 90	
Accounts Receivable	16,825 95	
Accounts Payable		3,180 75
Reserve for losses adjusted		5,210 85
Organization expense	1,822 03	
Cash	19,453 24	
	$ 414,834 10	$ 414,834 10

The Policy Register shows:

	Policies Issued	Premiums Received
Expiring in 1 year	$1,300,000 00	$ 15,000 00
Expiring in 2 years	1,075,000 00	18,500 00
Expiring in 3 years	1,450,000 00	34,500 00
Expiring in 5 years	1,250,000 00	29,500 00
	$5,075,000 00	$ 507,500 00

The Illinois Statute reads:

"In estimating profits, there shall be reserved therefrom "a sum equal to the whole amount of unearned premiums "on unexpired risks and policies. * * * * * * "The company may declare dividends not exceeding 10 per "cent. of its capital stock in any one year that shall have "accumulated and be in possession of a fund in addition to "the amount of its capital stock and of such dividends and "all actual outstanding liabilities equal to one-half of the "amount of all premiums on risks not terminated at the "time of making such dividends. A year is defined to mean "a calendar year." * * * * * * * * *

Determine the reserve required and state what sum, if any, is available from dividends without impairing the surplus shown in the ledger balances. Changes in relation to policies cancelled or settled from under claims for losses may be ignored.

6. The Orinoco Coal Company was incorporated in 1904, under the laws of the State of Illinois, with an authorized capital of $8,000, divided into eighty shares of the par value of $100 each, which were subscribed for as follows:

Samuel Black..................60 Shares.
William Green..................10 Shares.
John White.....................10 Shares.

Samuel Black was elected President; Geo. Brown, Vice-President and Manager, and Charles Pinck, Secretary and Treasurer. Neither Brown nor Pinck held any stock, but were to receive in addition to their salaries a percentage of the net profits; i. e. Brown 15 per cent. and Pinck 10 per cent.

No assessment whatever were made upon the stock, the credit to Capital stock being offset by a charge of Good Will and Franchises; and the money necessary for the conduct of the business was borrowed notes endorsed by the President. During the first two years the business was profitable; the borrowed capital was repaid and a surplus accumulated. The third year the expenses exceeded the profits and the company disposed of its stock of coal and furniture and fixtures and discontinued business.

At a meeting of the stockholders the following Balance Sheet was presented;

Assets.		Liabilities.	
Cash	31 12	Accounts Payable	740 22
Accounts Receivable	817 32	Reserve for Bad Debts	376 05
Samuel Black	6,644 15	Capital Stock	8,000 00
Charles Pinck	2,264 14	Surplus	8,640 46
Good Will & Franchise	8,000 00		
	17,756 73		17,756 73

It was announced that Treasurer Pinck, who was not financially responsible and was not bonded, had disappeared, and his account was uncollectable but would be reduced by crediting the account with his share of the net profits. President Brown, whose account was also largely overdrawn, stated his willingness to undertake the work of liquidating the debts of the company, keeping the Reserve for Bad Debts as a protection against such of the Accounts Receivable as could not be collected, and offered to give his personal checks at once to William Green, John White and Geo. Brown for their share of the surplus after charging to it the uncollectable portion of Pinck's account. The proposition was accepted.

How much should William Green, John White and Geo. Brown respectively receive, and how much would be placed to the credit of Pinck's account?

Show Balance Sheet after the distribution.

Chicago, Ill., May 5, 1908.

(Time, 6 hours.)

1. Proposition A. In 1906 a manufacturer's gross sales amounted to $202,706 00

against which his outlay was:

Material	$94,645 00
Wages	61,725 00
Shop expense	17,135 00
Administrative expense	14,250 00

State the ratios of the several features of departmental expense to the gross sales; also the per centum of profit.

Proposition B. The same excepting

Gross Sales $435,000 00

Material	$233,000 00

Wages	88,840 00
Shop expense	27,825 00
Administrative expense	17,585 00

Review the conditions and apparent causes that result in the great difference shown in the percentage of profit between the two propositions.

2. On January 1, 1900, A purchases the plant and business of B for $400,000, payable $100,000 cash; $150,000 January 1, 1901; $150,000 January 1, 1902, with interest on deferred payments at 6 per cent. None of the book accounts or stock of finished goods on hand January 1, 1900, are included in the sale, but are specifically reserved by B. Of such the Accounts Receivable are $28,500 and finished goods, per inventory, $45.000. The agreement further stipulates that B shall operate the plant during the year 1900 and shall be reimbursed on January 1, 1901, for all funds advanced for supplies, expense, labor or any other purpose in connection with the operation of the business during 1900, as shown by B's books. Such advances to be computed monthly and to bear interest from the last day of each month at 6 per cent. per annum to January 1, 1901. The profits of the business for the year 1900 to belong to A.

On December 31, 1900, B reports that inventory of finished goods on hand is $48,500. Expenses have been $284,000 and sales $350,000.

Condensed particulars of transactions are as follows:

	Sales	Cash Collections	Cash Advances	Interest Due B
January	$15,000	$10,000	$10,000	$550.00
February	10,000	15,000	25,000	1,250.00
March	5,000	10,000	12,000	540.00
April	5,000	15,000	32,000	1,280.00
May	5,000	5,500	35,000	1,225.00
June	5,000	18,000	25,000	750.00
July	100,000	55,000	30,000	750.00
August	80,000	75,000	25,000	500.00
September	75,000	55,000	30,000	450.00
October	25,000	45,000	30,000	300.00
November	15,000	50,000	15,000	75.00
December	10,000	19,000	15,000	......
	$350,000	$372,500	$284,000	$7,670.00

B presents the following statement to A on January 1, 1901, and requests Settlement:

Sale of plant and business as per contract	$ 400,000
Less cash paid by A January 1, 1900	100,000
	300,000
Interest 6 per cent. 1 year	18,000
Advanced by B monthly	284,000
Interest on advances	7,670
	609,670
Sales	350,000
Balance due B	259,679
Of which $150,000 deferred to Jan. 1, 1902	150,000
Due January 1, 1901	$ 109,670

A is not satisfied with statement and employs Certified Public Accountants to investigate and report another basis of settlement. It is found that the Accounts Receivable December 31, 1900, are $6,000, and B has taken these, as well as the finished goods remaining on hand ($48,500) and claims both items belong to him. There are no liabilities.

Make statement for A, as requested, using your own methods. B's statement of interest on Advances may be assumed to be correct in this question.

3. You are called upon to audit the accounts of Roland Stone & Co., stock brokers, Chicago, as of January 11, 1908.

Statement "A" is an account rendered by Henry Hudson & Co., the New York correspondents of Roland Stone & Co.

Statement "B" is an account current made up from Stone's books.

Bring down long and short currency balances on statement "A" and establish net balance.

Also show balance of stocks open, both long and short.

Bring down stock balances on statement "B," both long and short.

Make up Reconciliation statement, showing currency differences between "A" and "B" statements.

Statement "A"
January 1 to 11, 1908.

ROLAND STONE & CO., CHICAGO.
IN ACCOUNT WITH HENRY HUDSON & CO., NEW YORK.

Dr.	BOUGHT				SOLD		Cr.
1908.				1908.			
Jan. 1	Balance—long		65,782 25	Jan. 1	Balance—short		15,900 00
—200	Atchison Com.	....		—100	Pressed Car	2,200	
—100	Wabash	....		—100	Northwestern	13,700	
— 60	Reading	....					
—200	Steel Com.	....		2—100	Atchison Com.	71¾	7,168 75
				—100	Steel Com.	26	2,593 75
2—100	Amal.	47⅞	4,793 75	3—100	U. Pac.	125	12,493 75
3—100	Wabash	10	1,006 25	4—	Check on Chemical National		15,000 00
—100	Press'd Car	22	2,206 25	—100	Steel Com.	26¼	2,625 00
4— 10	B. & O.	Rec'd	......	— 50	Reading	Deliv'd	......
— 50	Anaconda	Rec'd	......	6—100	Amal.	48	4,793 75
6—200	Northwestern	137	27,412 50	7—150	Wabash	10	1,490 62
7— 20	L. & Nashville	90	1,801 25	— 50	Wabash	Deliv'd	......
8— 10	So. Pacific	72½	725 63	8—100	L. & Nashville	91	9,093 75
9— 50	Steel Preferred	87¾	4,390 63	10—100	Steel Pr'd	90	8,993 75
10— 40	Steel Preferred	88	3,522 50	11—	Dividend So. Pac.		15.00
11—100	Wabash	11	1,106 25				
	cy to Mr. Stone		200 00				
	Express on bonds to Boston		1 50				
	Balance down—Short				Balance down—Long		
11	BALANCE—Long			11	BALANCE—Short		

Statement "B"
January 1 to 11, 1908.

HENRY HUDSON & CO., NEW YORK.
IN ACCOUNT WITH ROLAND STONE & CO., CHICAGO

Dr. BOUGHT			SOLD			Cr.
1908			1908.			
Jan. 1—		....	Jan. 1— Balance—Short		65,782 25	
—100 Press'd Car		....	Long		15,900 00	49,882 25
—100 Northwestern		....				
			—200 Steel Com.			....
1—100 Atchison Com	71¾	7,168 75	—200 Atchison Com.			....
2—100 Union Pac.	125	12,493 75	—100 Wabash			....
—Draft Chemical National		15,000 00	— 60 Reading			....
3— 50 Reading	Rec'd	....				
—100 Amal.	48½	4,843 75	3—100 Amal.	47⅞		4,793 75
6—150 Wabash	10	1,490 63	4—100 Wabash	10		1,006 25
7— 50 Wabash	Rec'd	....	—100 Press'd Car	22		2,206 25
—100 Steel Com.	26	2,593 75	— 10 B. & O.	Deliv'd		....
—100 Steel Com.	26¾	2,668 75	6— 50 Anaconda	Deliv'd		....
8—100 Northwestern	137	13,693 75	—200 Northwestern	137		27,412 50
9—100 Union Pacific	125	12,493 75	7— 20 L. & Nashville	90		1,800 00
10—100 L. & Nashville	91	9,093 75	8— 10 So. Pacific	72½		725 62
11—100 Steel Pref'd	90	8,993 75	10—Dividend Am. Biscuit			150 00
—200 Mo. Pacific	45	4,493 75	11—cy from Jones, Hooper & Co.			500 00
Balance down		11,873 49	—400 Mo. Pacific	46		18,425 00
		106,901 62				106,901 62
			Jan. 11— BALANCE			11,873 49

4. A railroad corporation, owning an important system of railways, secures the passage of a law under which it has power to acquire, hold and vote stocks in other corporations. It acquires approximately 90 per cent in each case of the capital stocks of three smaller railroad corporations owning feeder lines.

Prepare for illustration condensed balance sheets of the four companies prior to the merger, showing in each case the following:

ASSETS

Property Rights and Franchises.
Materials and Supplies on Hand.
Accounts Receivable.
Cash on Hand.
Unearned Insurance.

LIABILITIES

Bonded Debt.
Capital Stock.
Bills Payable.
Accounts Payable.
Accrued Interest and Taxes.
Surplus.

The larger company takes over the Materials and Supplies on hand, and also the Cash on Hand of the three subsidiary companies, and the stock of the subsidiary companies is acquired in exchange for a new issue of preferred stock of the larger company, dollar for dollar. Based upon the trial balances which you use for illustration, prepare trial balances of all of the companies as they should appear when the merger has been accomplished.

5. Review Question No. 1 (as given this morning) and criticise method adopted by B in calulating interest on advances. Provided you had full access to B's books, state how you would work out the accounts and establish a thoroughly correct basis of settlement. What essential errors of principles can be shown in B's statement?

6. You are employed to conduct the accounting for a public utility proposition just incorporated. It involves the accounting for both the construction and operation of the plant. The company incorporates under the laws of the state of Illinois and issues its

stocks and bonds, the proceeds of which are used to build the plant.

Give opening Capital entries and Divisional charges in construction and outline an operating system of accounts. In the opening and construction entries use your own figures.

CHICAGO, ILL., November 19, 1908.

PART I.—(Time, 3 hours.)

1. The following are the Balance Sheets of two companies which carrying on similar businesses have decided to amalgamate on the basis that the good will and assets (except the shares of Y. Z. Mining Company held by the A. B. Mining Company) are of equal value. How would you recommend that the amalgamation should be effected?

State two possible methods, with full explanation of your reasons, and give in each case the Balance Sheet of the Amalgamated Company.

THE A. B. MINING COMPANY.

BALANCE SHEET AT DECEMBER 31st, 1907.

ASSETS.

Cost of Mines and Other Assets	$ 250,000 00
Shares in the Y. Z. Mining Company, 1250 shares of $100.00 each, costing	187,500 00
Accounts Receivable	5,000 00
Cash	2,500 00
Stock of Minerals	5,000 00
Total..............................	$ 450,000 00

LIABILITIES

Accounts Payable	$ 12,500 00
Creditors for cost of purchase of 1,250 shares in the Y. Z. Mining Company (per contra)	187,500 00
Capital Stock, 2,500 shares of $100.00 each	250,000 00
Total..............................	$ 450,000 00

THE Y. Z. MINING COMPANY.

BALANCE SHEET AT DECEMBER 31st, 1907.

ASSETS

Cost of Mines and Other Assets	$ 250,000 00
Stock of Minerals	2,500 00
Accounts Receivable	5,000 00
Cash	2,500 00
Total	$ 260,000 00

LIABIITIES

Accounts Payable	$ 10,000 00
Capital Stock, 2,500 shares of $100.00 each	250,000 00
Total	$ 260,000 00

2. Bilsom and Marley are partners, sharing profits and losses equally. The partnership is dissolved December 31, 1907, at which time Bilsom's capital investment is $10,000, and Marley's $2,500. The total liabilities of the firm are $25,000, which includes $5,000 due Bilsom on loan account and $2,500 due Marley on loan account. The whole of the assets of the firm are disposed of for $30,000 cash on May 1, 1908. Prepare accounts closing the partnership and show the position in which the partners stand with each other. No allowance for interest is required.

3. You are called to make up a statement of the condition of a business which has been running for a few years at a loss, but to which has been added a new feature; upon the possibilities of which and his own financial responsibility outside of the business, the proprietor has succeeded in negotiating a loan. The books have not been well kept, but the following particulars can be obtained from them:

Merchandise purchased during the year	$ 50,000 00
Total sales for year	40,000 00
Borrowed from John Smith	30,000 00
Fixtures purchased during the year	5,000 00
Expenses for year	20,000 00
Proprietor's drawings during the year	3,000 00
Cash on hand December 31, 1907,	1,300 00
Accounts receivable December 31, 1907,	5,000 00
Accounts payable December 31, 1907,	15,000 00
Mdse. inventory new department Dec. 31, '07,	25,000 00

The books on January 1, 1907, showed the following balances:

Cash on hand	$ 300 00
Accounts receivable	2,000 00
Fixtures	2,000 00
Accounts payable	3,000 00
Capital	5,000 00
Advances to employes	2,000 00

On January 1, 1907, the bookkeeper had made up the following statement intended for a balance sheet at that date, viz.:

Cash	$ 300 00	Accounts payable	$3,000 00
Accounts receivable	4,000 00	Loan from Mary White	6,000 00
Fixtures	2,000 00		
Deficit	2,700 00		
	$9,000 00		$9,000 00

Without calculating interest or depreciation make up a Profit and Loss Account for 1907 and a Balance Sheet as of December 31, 1907.

PART II.—(Time, 3 hours.)

4. A company is formed at January 1st, 1907, with a capital of $1,750,000.00, consisting of 17,500 shares of the par value of $100.00 each.

Of these, 16,250 shares are sold to subscribers at par for cash.

The following is a summary of the transactions of the Company during the first twelve months of carrying on business:

The preliminary and formation expenses are $12,500.00, which are paid in cash.

They purchase freehold and leasehold current going iron works and collieries from A. B. and Company for $1,250,000.00.

They take over from them the necessary plant and machinery at $375,000.00, and a stock of iron, coal, etc., at $229,250.00.

The vendors take in part payment of their purchase money $50,000.00 on First Mortgage Bonds, and $125,000.00 in shares of the Company, fully paid. There is $1,665,000.00 paid to them in cash.

The Company expends during the year, $54,200.00 in additions to the plant and machinery by purchases from sundry creditors to the extent of $41,300.00, and by payments through Cash Account of $12,900.00.

They purchase materials from sundry creditors to the extent of $461,500.00, and they purchase for cash to the extent of $67,310.00. They pay for wages, rents, royalties, tolls, wagon hire, repairs, etc., $842,700.00.

Their sales from iron and coal to sundry debtors amount to $1,526,585.00. They receive in cash from sundry debtors $1,040,700.00.

They draw on sundry debtors bills to the extent of $419,740.00.

They transfer of the above amount to sundry creditors $54,510.00, and the bank credits their account with $331,400.00, the proceeds of those discounted.

They pay in cash to sundry creditors $231,415.00.

They accept for creditors, bills of exchange to the extent of $142,110.00; of this amount they meet $86,005.00 through their banking account, the balance being still current at the end of the year. They borrow on First Mortgage Bonds $375,000.00 which is paid into their banking account as received.

They pay to their bankers for interest and commissions $8,040.00; for salaries, office expenses, and management, $15,670.00; law charges, $410.00, and for Directors' and Auditors' fees, $3,010.00.

They write off five per cent. from the original amount of the plant and machinery for depreciation, but nothing from the additions.

They also write off the following amounts: $25,000.00 from the freehold and leasehold property to cover minerals taken from the freehold and to provide for the expiration of the leases; $3,005.00 for bad debts, and one-fifth from the preliminary expenses.

The discount allowed to sundry debtors amounted to $5,530.00.

There is due at the close of the year $2,250.00 for interest on Bonds, and the value of the stock of materials then on hand is $154,285.00.

All receipts are paid into the bank, and all payments are made by check.

Prepare Trading and Profit and Loss Accounts and Balance Sheet as at December 31st, 1907, showing the result of all the foregoing transactions. Marshall the assets and liabilities, beginning the former with the most liquid asset, and the latter with the liability to be first paid.

Criticise in any way that occurs to you the information that the Trading and Profit and Loss Accounts and Balance Sheet give.

5. Prepare from the following figures, as if for a meeting of creditors, a Statement of Affairs of Brown and Company.

Cash at Bank, $500.00; Cash in Hand, $50.00; present value of lease, $5,000.00, upon which a loan of $2,500.00 has been obtained; debtors good, $10,000.00; ditto doubtful, $1,500.00, which it is expected will produce $750.00; ditto bad, $2,500; creditors unsecured on open accounts, $40,000.00; creditors on bills payable, $10,000.00; stock-in-trade, cost $20,000.00, estimated to realize $12,000.00; plant and machinery, cost $12,500.00, estimated to produce $6,000.00; credit for an advance of $4,000.00, holding security valued at $1,750.00; liabilities on accommodation bills of exchange, $15,000.00, of which it is expected $7,500.00 will rank for dividend; liabilities on bills discounted $20,000.00, of which it is expected $3,500.00 will rank for dividend; creditors for rent and wages, $250.00.

As the statement of affairs referred to above shows insolvency, prepare Trading and Deficiency Accounts from certain facts therein disclosed, and from the following:

Capital at commencement, $12,500.00; sales, $270,000.00; loss on shipment to Cape Town, $7,000.00; purchases, $241,200.00; drawings, $14,000.00; wages (manufacturing) $15,000.00; trade charges and expenses, $30,000.00; profit on purchase and sale of shares, $1,750.00.

6. A, B and C were partners and contributed the following capital: A $8,000, B $6,000, and C $4,000. Profits and losses were to be borne equally. At the end of the first year each partner had drawn $1,000. The assets were then disposed of for $3,000, the purchaser discharging all the liabilities of the firm. How should this sum of $3,000 be apportioned among the partners and would any of them have to advance any further sum? If so, state which partner and how much and make up the necessary accounts to show the results.

CHICAGO, ILL., May 4, 1909.

PART I.—(Time, 3 hours.)

1. The fiscal year of a Manufacturing Company ends June 30, 1908, and the bookkeeper presents a statement to the Directors made up in the following form:

Gross Sales	$ 285,000 00	
Increase in Inventory	15,000 00	
		$ 300,00 00
Cost of Sales:		
Operating expenses, material & supplies	$ 257,000 00	
Plant expense	12,000 00	
Freight on returned goods	600 00	
Sundry purchases finished goods	10,400 00	
		$ 280,000 00
Manufacturing Profit		$ 20,000 00
Other Income:		
Miscellaneous earnings	$ 1,500 00	
Profit on contracts	6,500 00	
Discount on purchases	500 00	
		$ 8,500 00
		$ 28,500 00
Less:		
Discount on sales	$ 2,875 00	
Rebates and allowances	1,125 00	
		$ 4,000 00
Net Plant Profit		$ 24,500 00
Less:		
General expenses	$ 5,500 00	
Interest	1,500 00	
		7,000 00
Net Profit		$ 17,500 00

You are required to make up a Profit and Loss statement in regular form, showing Purchases, etc., and using such of the

above figures as may be necessary together with those following: Inventory June 30, 1907. Material $115,000, Supplies $35,000, Finished Goods $45,000. Inventory June 30, 1908. Material $140,000, Supplies $10,000, Finished Goods $60,000. Material used in factory during the year, $75,000. Wages $122,500. Fuel $2,500. Repairs and Renewals, $2,000. Other operating expenses, $55,000, which includes $25,000 supplies used.

2. By the partnership deed of a manufacturing firm consisting of four members, A, B, C, and D, it was provided that in the event of the death of any partner before the expiration of the partnership by effluxion of time on December 31st, 1911, there should be paid to the legal representatives of the deceased the amount appearing to his credit on December 31st, next preceding the death, together with interest thereon at 5 per cent. per annum to December 31st following the decease and a share of the profits of the year of his decease corresponding to the number of days that he lived during it, calculated after the rate of the average of his share for the last three completed years, together with interest on such share from the date of death to the end of the year.

The four partners shared profits equally and each took interest on his capital at 5 per cent. per annum, but no interest was charged on the drawings, for each drew at the end of every month an equal sum in anticipation of profits.

The surviving partners were to share the profits equally. C died on June 30th, 1905. The profits of the three immediately preceding years had been respectively $70,000.00, $78,000.00, and $63,500.00. The proportion payable in respect of a deceased partner's interest and profits it was stipulated by the deed of partnership should be treated as a trade expense of the year in which he died.

With the aid of the following Trial Balance, of December 31st, 1905, taken out before interest, depreciation, and an amount in lieu of factory rent have been charged, prepare Manufacturing and Profit and Loss Accounts for 1905, showing the various items in their proper divisions, and allowing $2,500.00 for depreciation of Office Furniture and Fixtures, and 5 per cent. on the amount of the Real Estate (as appearing in the Trial Balance) for Factory Rent. Also construct a Balance Sheet showing what was due to

the deceased's estate and what capital stood to the credit of each of the surviving partners.

The inventory at December 31st, 1905, was $125,000.00. Bills Receivable to the amount of $1,000.00 falling due after December 31st, 1905, had been discounted.

TRIAL BALANCE, DECEMBER 31ST, 1905.

A, Capital Account		$ 120,000 00
B, Capital Account		110,000 00
C, Capital Account		100,000 00
D, Capital Account		90,000 00
A, Drawing Account	$ 12,000 00	
B, Drawing Account	12,000 00	
C, Drawing Acocunt	5,000 00	
D, Drawing Account	12,000 00	
Inventory, December 31st, 1904	100,000 00	
Purchases during the year after crediting Bought Returns	1,775,000 00	
Factory Wages and Salaries	250,000 00	
Balance of Discounts Received, and Allowed		20,000 00
Sales during the year, after debting sold Returns		2,110,000 00
Cash in Hand and at Bank	29,500 00	
Bad Debts	16,000 00	
Bills Receivable	15,000 00	
Office Salaries	9,000 00	
General Office Expenses	2,500 00	
Accounts Receivable	414,000 00	
Traveling Expenses	10,000 00	
Taxes, Factory	1,000 00	
Rent and Taxes, Office	2,000 00	
Real Estate	60,000 00	
Plant and Machinery	15,000 00	
Office Furniture and Fixtures	2,500 00	
Bills Payable		50,000 00
Accounts Payable		150,00 00
Interest and Bank Discount, paid	7,500 00	
	$2,750,000 00	$2,750,000 00

3. A new corporation, D is formed to purchase and amalgamate the business of three corporations, A, B, and C carrying on the same class of business, at December 31st, 1908.

There are considerable differences between the capitals, the gross sales, the expenses and the net profits of the three corporations. The amount to be allotted to each in shares of the new corporation for its capital and good will is agreed to be referred to you.

Using your own figures, construct and give a profit and loss account for five years ended December 31st, 1908, and balance sheet, showing liabilities other than capital, at December 31st, 1908, for Corporations A, B, and C, illustrating the foregoing particulars, and assume that Corporation A shows a larger profit on a smaller capital than either of the others.

Give the balance sheet of the new Corporation D as it will appear as the result of your Report, and state your reasons for the allotment you consider equitable.

PART II.—(Time, 3 hours.)

4. Two professional firms, consisting of two partners each, agree to amalgamate. Jones and Robinson have Accounts Receivable, $12,500.00 and other assets taken as net, $1,250.00. Sikes and Wilson have Acounts Receivable, $11,000.00, and other assets net $1,000.00, each firm bringing $2,500.00 in Cash and discharging their own liabilities, with an arrangement that the partners of each firm shall have a preferential allowance of 15 per cent. on professional fees arising from the connection of each firm.

At the end of twelve months the earnings were $49,500.00, of which $19,000.00 came from Jones and Robinson's introduction, $23,000.00 from Sikes and Wilson's, and the rest from neutral ground. The Accounts Receivable of Jones and Robinson were realized at an average loss of 6 per cent., those of Sikes and Wilson at 5 per cent. The expenses were $16,725.00.

As at the end of the year, make out the Realization Account of each firm, the Profit and Loss Account of the amalgamated firm, and the Capital Accounts of each partner, allowing interest on the net assets and cash brought in at 5 per cent. per annum, but none on the Accounts Receivable. The drawings have been: Jones, $5,000.00; Robinson, $3,250.00; Sikes, $5,500.00; Wilson, $3,500.00, without interest.

Profits are divided as follows: Jones and Sikes, three-tenths each; Robinson and Wilson, two-tenths each. The same proportions govern the divisions of Assets brought in and the Preferential Allowances.

5. Two merchants, C. F. Munton and W. A. Spencer, agree to share equally in a joint adventure in trade to the West Indies.

On March 1st, 1907, they charter a small vessel and purchase and ship materials which cost them $197.00, for which Munton gives his check.

This cargo they consign to John Smith, their agent at Havana, which he disposes of, and in return ships on board the same vessel 4,000 cases of Commodity A and 100 cases of Commodity B; and he draws on Munton at sight for $125.00, this being the amount of the agent's charges and disbursements over and above the net proceeds of the cargo consigned to him. Munton accepts and pays the bill. On April 1st the vessel arrives, whereupon Munton pays sundry charges of $337.50. Spencer pays the freight, amounting to $493.00. On April 4th Munton sells 1,000 cases of Commodity A to Henry Chamberlain for $239.58, and collects $150.00, and on April 10th Spencer collects the rest.

About this time, Mr. Spencer happens to have occasion for 1,400 cases of Commodity A, which he takes on April 14th, and with Munton's consent values at $291.66. He also takes 10 cases of Commodity B, valued at $47.50. Munton sells the other 1,600 cases of Commodity A on April 20th to John Walters for $383.33, and a month after accepts $382.50 in full payment.

Mr. Munton next sells on April 25th the other 90 cases of Commodity B in barter for 30 cases of Commodity C, which he and Spencer divide equally between them.

The goods being thus disposed of, Munton presents his bill of charges, which comes to $22.66, and desires to have accounts stated between Mr. Spencer and him.

You are required to give the Ledger Accounts of the joint adventure recording the foregoing transactions as follows:

Joint Adventure Account,
C. F. Munton,
W. A. Spencer,
Henry Chamberlain,
John Walters.

and also W. A. Spencer's account in C. F. Munton's ledger, showing his joint adventure with W. A. Spencer.

6. On December 1, 1907, the following particulars are furnished of the position of John Mapleton, insolvent: Factory equipment cost $15,000.00, estimated to realize $10,000.00. Stock of finished goods, $10,000, estimated worth $7,500.00. Material and supplies $2,500.00, estimated worth $1,000.00. Furniture and Fixtures, $900.00, estimated worth $200.00. Investments valued at $25,275.00, of which $15,000.00 is held by Bankers as security for loan of $12,000.00. Accounts receivable, $6,250.00, of which $2,500.00 are good; $1,250.00 bad; and $2,500.00 estimated to realize $1,500 Cash, $575.00, of which $25.00 represents petty expense items not charged up, and $50.00 an I. O. U. of a former employe which is worthless. Accounts Payable, $28,500.00. Bills Payable, $25,000.00, of which $12,000.00 is due Bankers. Wages due, $500.00. Rent due and past due, $1,000.00. Capital on January 1, 1907, as shown by books, $15,000.00. Loss by sale of investment May 1, 1907, $5,000.00. Loss in trading account January 11, 1907, to December 1, 1907, $3,500.00. Drawings charged personal account of John Mapleton, $1,000.00.

Make up a statement of affairs and a Deficiency account as on December 1, 1907.

CHICAGO, ILL., May 3, 1910.

PART I.—(Time, 3 hours).

1. I start in business with $5,000 in cash. At the end of the first year my purchases, on which I am allowed 2½ per cent discount for cash, have amounted to $108,408.04, which I have paid for, with the exception of invoices amounting to $7,108.04.

My sales have been $119,212.50, of which sum $7,107.50 are outstanding, the balance, on which I have allowed 5 per cent. discount, having been paid for in cash.

My stock consists of raw material costing $3,756.50, and of finished goods of a selling value of $6,458, but costing $4,906. I have paid during the year $6,702.87 in wages, and $2,706.54 in salaries, rent and other expenses; and I owe $455.56 under the latter head. I have drawn $1,200 on acount of my profits.

Construct all the Ledger Accounts necessary to show the force going transactions, and prepare a Balance Sheet and Trading and Profit and Loss Accounts at the end of the year, calulating interest on capital, but not on drawings, at the rate of 5 per cent. per annum.

2. A. B. & Co. agree with C. D. & Co. that the latter shall ship on consignment to Honolulu on joint account 20 cases of commodity "X," the invoice price of which is $2,100, less 2½ per cent. A. B. & Co. pay the packing charges, $25; also freight, insurance and other charges, $90, and they draw on their correspondents in Honolulu in advance for $1,600 at 90 days, which is discounted at a cost of $20, and the proceeds handed to C. D. & Co. as part payment. These transactions may be dated March 1st, 1909. On the 30th of November, 1909, A. B. & Co. receive the account sales and net proceeds, $418, and they then pay C. D. & Co. the balance due to them.

Prepare a Joint Consignment Account charging interest on the amount lying out at 5 per cent. per annum for eight months, closing it by dividing the loss. Also an account to be rendered by A. B. & Co. to C. D. & Co. closed by payment of the balance and prove that the losses borne by each are equal.

3. On April 1st, 1909, a Tobacco Manufacturer purchases 42,600 lbs. of leaf (lying in bond) at 12½ cents per lb. His trade is divided into two departments, No. 1 and No. 2.

During the half year ended, 30th September, 1909, he takes out of bond 34,200 lbs., paying thereon duty at 75 cents per lb., and sundry expenses, one cent per lb. This leaf is used in the manufacturing, viz.: 21,500 lbs. for Number 1, and 12,700 lbs. for Number 2, and in process of manufacture the weights increase by 12 per cent. and 15 per cent., respectively.

Of the finished article he sells 19,240 lbs. of Number 1 at $1.25 per lb., and 13,600 lbs. of Number 2 at $1 per lb., allowing 4 per cent. discount in each case.

The expenses are: Wages, $3,630; packing, $550; freight, $615; salesmen's expenses, $980; rent, taxes, etc., $715; advertising, $435; repairs, $280; sundries, $165.

He values his stock on hand at September 30th, 1909, as follows: Leaf in bond at cost; in department Number 1 at $1.02 per lb.; in department Number 2 at 91c per lb., dividing the expenses

thus: Two-thirds to Department Number 1, and one-third to Department Number 2.

Prepare Ledger Account of Leaf in Bond, and Profit and Loss Accounts for the half year for Departments Number 1 and Number 2, showing details, results, and stocks (weight and cost price) on hand.

4. A Factory consists of two blocks of buildings, "A" and "B". On the first of January, 1907, "A" contains engine and boiler which cost $4,000, and machinery costing $13,000; "B" contains machinery costing $7,000. The following are purchases of machinery: October 1st, 1907, "A", $1,000; July 1st, 1908, "A", $750; "B", $1,500; April 1st, 1909, "A", $600; "B", $900; October 1st, 1909, "B", $250.

On January 1st, 1908, machinery (costing January 1st, 1907, $1,000) is sold from "A" for $625, and on July 1st, 1908, machinery (costing $1,300 January 1st, 1907) is sold from "B" for $1,000.

The accounts are made up to December 31st each year. On December 31st, 1909, the whole premises and contents are destroyed by fire, and the Fire Insurance company agrees to pay upon the following basis: Engine and boiler, cost price, less depreciation 8 per cent. per annum upon that sum; machinery in "A", cost, less depreciation at 10 per cent. per annum upon diminishing value; machinery in "B", cost, less depreciation at 7½ per cent. per annum upon diminishing value.

Prepare Ledger Accounts showing how much is recoverable upon this basis.

5. A. and B. on winding up their partnership found their assets realized as follows:

Factory premises standing in their books at $10,000, realized $4,000.

Machinery standing in their books at $7,500 realized $2,500.

Merchandise standing in their books, at $5,500, realized $4,500.

Accounts receivable standing in their books, at $9.500, realized $6, 500.

Their unpaid liabilities were $10,500. A's capital stood at $15,000, and B.'s capital at $7,000. In respect of Profits and Losses they were equal partners.

Divide the proceeds of the realization between them after paying off the liabilities, and debit them as having been paid the proportion to which each was entitled, and show what amount would be payable (if any) by either partner to the other to settle the accounts.

PART II.

Tuesday, May 3, 1910.

6. The capital of an Irrigation Company is made up of $1,000,000 Common stock; $500,000 5 per cent. cumulative Preferred stock, and the profits of any year are to be applied:

1st. To paying the Manager 5 per cent. thereof for remuneration.

2nd. To paying the Preferred dividend and any arrears thereof.

3d. To the Common Dividend up to 10 per cent.

Any surplus on the above to be applied:

1st. 10 per cent. thereof to the Manager as bonus.

2nd. Two-thirds of the remainder as further dividend on common stock.

3d. One-third of the remainder to Reserve.

The profits of the year 1908 were $175,000. The Preference dividend of 1907 was 2 per cent. in arrears.

Distribute the Profit on the lines stated, using a ledger form to show the appropriations you make.

7. A, B and C engage in business, A contributing $10,000 capital; B $5,000, and C undertakes to take the active management at a salary of $3,000 a year, to be paid to him monthly. After providing 5 per cent. interest on capital they are to divide the net results in the proportion of 5, 3, and 2. At the end of 18 months they ascertain the position to be unfavorable and decide to wind up The assets are agreed to be worth $12,500, of which A takes $10,000, and B $2,500. There are no liabilities except for the capital and simple interest thereon, and one month's salary due C. State the position of the three partners to each other.

8. You are required to write up the accounts of the Executor of an estate and show the amounts which would appear in the Capital and Income accounts as at date of March 31, 1910. The Testator having died November 30, 1909, leaving a widow who is to receive two-thirds of the income, and one child who is to receive one-third. The property consisted of:

$40,000 loaned on mortgage at 5 per cent. Interest payable semi-annually on June 30th and December 31st.

$10,000 first mortgaged 5 per cent. bonds of a Railway Company. Interest semi-annual on March 1st and Sept. 1st

$10,000 5 per cent. cumulative preferred stock of an Industrial company:—full dividends on which were declared and paid quarterly in each year up to Dec. 31, 1907. 4 per cent. was paid in 1908; 4 per cent. in 1909, and on March 31st, 1910, the Executor received 2 per cent. in respect of dividends in arrears, and 1½ per cent. for first quarter of 1910.

$20,000 Common Stock of Industrial Company, which paid 2 per cent. cash dividend on March 1, 1909; 2 per cent. June 1, 1909; 2 per cent September 1, 1909; 2 per cent. cash and a stock bonus of 10 per cent.

$ 5,000 in household furniture and effects—devised to widow.

$ 175 cash in house—devised to widow.

$ 4,250 cash in bank, of which the residue, after discharging$1,250 of debts due sundry creditors and $250 for funeral expenses, is devised to the widow.

Assume all sums receivable to have been collected, and that the debts and funeral expenses have been paid. Also that the cash residue and household effects have been transferred to the widow.

Ignore odd days in making apportionment and consider months as 1-12th of the year.

9. On June 30, 1905, the following Balance sheet of a small merchant is furnished by him:

Cash at Bankers, $575. Cash in office, $225. Accounts receivable, $3,785. Merchandise, $1,000. Store Fixtures, $415. Accounts payable, $3,500. Bills payable, $2,000. Balance (capital), $500.

Upon inquiry it is disclosed that the following items have been omitted from the Balance Sheet, and have not been entered on the books, viz.:

(a) $1,000 borrowed at 6 per cent. June 30, 1903, upon which

nothing has been paid in respect of either principal or interest.

(b) $50 due for rent of store.

The cash is found to include sundry petty expense items amounting to $35, and an I. O. U. of a former employe for $50, which is worthless.

$1,500 of the accounts receivable are known to be bad; $1,500 are good, and the balance is estimated to produce $500. The merchandise can be sold to realize $750. The fixtures will realize $150. The merchant has no personal assets.

Prepare a statement of affairs and a Deficiency Account.

10. A firm of three partners divided their profits as follows: A, 11-25; B, 8-25; C, 6-25. By the partnership agreement it was provided that in the event of the death of either, the survivors should take the deceased's share in the proportion they already shared the profits. A dies. What proportion of the profits would B and C respectively take afterwards?

CHICAGO, ILL., DECEMBER 22, 1910.

PART I.

1. Prepare a Trading and Profit and Loss Account from the following Trial Balance and data for the year ended December 31st, 1909.

The Stock of Stores and Materials at the end of the year, December 31st, 1909, was $8,500. The rent at the rate of $2,500 was paid up to the 30th of September. Bad Debts amounting to $850.00 have to be written off. A provision of $1,250 has to be made to meet possible bad debts. Depreciation at the rate of 5 per cent. per annum on the Plant at January 1st, 1909, has to be written off. The wages are paid up to the 27th of December; the wages from that date to the 31st of December amount to $175. Interest at 5 per cent. per annum has to be passed on the amount of the Partners' capital Accounts at January 1st, 1909. (No interest on Partners' current Accounts). Profits to be divided equally between the Partners. The necessary entries for division of Profits and Interest, etc., to be passed through the Partner's current Accounts. It is assumed that no further entries are required to be made to complete the Accounts.

JOHNSON AND WHITE

Trial Balance, December 31st, 1909.

Investments	$ 2,410 00	
Accounts Payable		$ 19,125 00
Stores and Materials, 1st January, 1909..	2,120 00	
Johnson's Capital		29,600 00
White's Capital		15,300 00
Purchases	24,225 00	
Johnson's Current Account..............	2,310 00	
White's Current Account	3,910 00	
Accounts Receivable	13,265 00	
Wages	27,825 00	
Rent	1,875 00	
Dividents on Investments		115 00
Plant, 1st of January, 1909	44,100 00	
Bills Payable		4,975 00
Bank		975 00
Office Expenses and Salaries............	2,100 00	
Installments received on account of work in progress		14,355 00
Taxes	40 00	
Bills Receivable	3,670 00	
Cash in Office	50 00	
Law and Accountancy Charges	255 00	
Repairs	330 00	
Work in Progress, December 31, 1909....	25,905 00	
Bank Charges	90 00	
Sales		70,035 00
	$ 154,480 00	$ 154,480 00

2. Prepare a Balance Sheet and Partner's Current and Capital Accounts from the above Trial Balance.

3. Prepare a Statement of the affairs of Messrs. Wilson & Company from the following figures:

Cash on hand, $50.00. Debtors good, $2,500.00. Debtors bad, $250.00. Debtors doubtful, $5,000 00, which are estimated to realize $3,750 00. Creditors unsecured, $13,000.00. Creditors partially secured, $6,000.00; estimated value of security, $4,000.00. Creditors fully secured, $9,500.00, estimated value of security, $12,000.00. Landlord, creditor for rent, $1,350.00, of which sum he is a preferred creditor for $1,200.00. Factory manager, creditor for salary, $750.00,

of which sum he is a preferred creditor for $250.00. Liabilities on notes discounted, $3,250.00, all of which are expected to be duly met at maturity. Stock of merchandise cost, $4,250 00, estimated to realize $3,750.00. Interest in a lease of business premises estimated to be worth $900.00. There is a liability in respect of a contract which the Debtors cannot complete, owing to the failure, amount unknown, but estimated at $1,500.00. Bills Receivable on hand, $375.00, estimated to produce $100.00.

4. The following Statements of Account and Balance Sheets were presented to the members of a club in the two years mentioned:

Abstract of Receipt and Expenditures.
for the Years 1908 and 1909

			Year ended Dec. 31, 1908	Year ended Dec. 31, 1909
To Balance for preceding year			$ 4,000 00	$ 5,840 00
To Entrance Fees received			4,985 00	5,095 00
To Subscriptions			37,870 00	38,155 00
To Subscriptions received in advance for 1909 and 1910			420 00	210 00
To Sale of Provisions, Etc.			85,525 00	76,190 00
To Receipts for Billiards, Cards, Cigars, etc.			6,110 00	5,360 00
			$ 138,910 00	$ 130,850 00
By Rents, Taxes, etc.			$ 13,765 00	$ 14,055 00
By Interest			9,385 00	9,995 00
By Purchases of Provisions, Wines, Etc.			74,900 00	67,190 00
By Billiards, Cards, Cigars, etc.			2,315 00	2,000 00
By Salaries and Wages			16,240 00	16,155 00
By Fuel, Light, Repairs, Renewals, Additions to Furniture, etc.			14,465 00	18,625 00
By Club Debentures paid off			2,000 00	2,000 00
By Balances at Bank and in Hand:	1908	1909		
	$20,675 00	$16,450 00		
Less: Accounts outstanding included in Expenditure above	$14,835 00	$15,620 00	$ 5,840 00	830 00
			$ 138,910 00	$ 130,850 00

BALANCE SHEET.

Assets:			Year ended Dec. 31, 1908	Year ended Dec. 31, 1909
Club House			$ 224,200 00	$ 224,200 00
Furniture, China, Glass, Eetc. Balance, Jan. 1st.	1908	1909		
	$30,000 00	$30,915 00		
Additions to Dec. 31st	$ 4,350 00	$ 4,750 00		
	$34,350 00	$35,665 00		
Less:				
Depreciation	$ 3,435 00	$ 3,565 00	$ 30,915 00	$ 32,115 00
Stock of Wines, Etc.			5,115 00	4,875 00
Stock of Cigars, Cards, Etc.			275 00	375 00
Cash at Bank and in Hand			20,675 00	16,450 00
			$281,180 00	$278,015 00

Liabilities:	Year ended Dec. 31, 1908	Year ended Dec. 31, 1909
Club Debentures	$ 219,000 00	$ 217,000 00
Subscriptions rec'd in advance	420 00	210 00
Sundry Creditors	14,835 00	15,620 00
Balance in favor of the Club	46,925 00	45,185 00
	$ 281,180 00	$ 278,015 00

State in what respect, as regards information or otherwise, you would consider the above Statements and Balance Sheets incorrect, and unsatisfactory to the members of the Club.

5. Assuming the Assets and Liabilities stated on the above Balance Sheets to be true, and the analysis of the Receipts and Payments of the year 1909 to be accurate, state the income and expenditures of that year in such a way as to correctly show the actual results of the year's operations.

PART II.—(Time, 3 hours.)

6. A. and B. agree to dissolve partnership December 31, 1908. The stated Balance Sheet was as follows:

ASSETS:		
Merchandise Inventory	$ 57,500 00	
Furniture and Fixtures	2,000 00	
Accounts Receivable	85,500 00	
Bills Receivable (discounted)	14,000 00	
Good Will	5,000 00	
		$164,000 00
LIABILITIES:		
Accounts Payable	$ 50,000 00	
Bank	2,500 00	
Bills Payable	11,500 00	
Bills Receivable (discounted)	14,000 00	
A.'s Capital account	53,500 00	
B.'s Capital account	17,500 00	
Income account	15,000 00	
		$164,000 00

Profits are divisible, A 4-7, and B, 3-7, five per cent. being allowed on capital, and no interest charged on drawings, which were upon the basis of $2,500.00 each. A continues the buisness and assumes all liabilities. B opening up business elsewhere takes one-fourth of the stock and agrees to leave in the business $2,500 as guarantee for one year against floating liability for bad debts and discounted merchandise notes, and to receive or pay any balance in cash, any amount received being derived from accounts due the firm.

Prepare A's balance sheet after dissolution expressive of the terms stated.

7. The Energy Manufacturing Co. draws on its customer, Slopay & Company, at two months from date, January 1, 1910,

for $5,000 00, and three days thereafter discounts the draft with the City National Bank at five per cent. per annum net.

At maturity S. & Co. confess they cannot meet the draft, but pay the E. Mfg. Co. $3,000.00 on account, and give an acceptance for a like period for the balance, upon condition that the E. Mfg. Co. retire the original draft, which is done.

Detail serially the entries by which the E. Mfg. Co. should record these transactions on its books.

8. A testator directed that the income of his estate should be paid to the widow during her life time, and in the event of her death the income to be divided equally between his son and two daughters. The widow died on August 1, 1908. The income of the estate for the year 1908 was as follows:

1908.		
Jan. 1.	Commonwealth Electric, interest	$300 00
Feb. 28.	Mortgage, interest, So. Chicago	480 00
Mar. 31.	Mortgage, interest, Evanston	660 00
April 1.	Rent of barn	120 00
May 1.	Bank dividend	510 00
June 2.	Santa Fe, interest	285 00
July 1.	Commonwealth Electric, interest	300 00
Aug. 31.	Mortgage interest, So. Chicago	480 00
Sept. 30.	Mortgage interest, Evanston	660 00
Oct. 1.	C., B. & Q. R. R., dividend	120 00
Nov. 1.	Bank dividend and extra	765 00
Dec. 2.	Santa Fe, interest	285 00

Advances to widow during the year—Jan. 31, $250.00; Mar. 28, $500.00; July 25, $1,500.00.

Apportion the income by months and write up the following accounts; considering the dates of payments to and from as the due dates:

Cash Account.
Widow's Account.
Son's Account.
Each Daughter's Account.

9. In investigating the records and accounts of a business on behalf of a purchaser of a half interest, state concisely to what points you would direct your special attention.

(Limit, 150 words).

10. A client bought a business for $17,500.00, basing his action upon the following balance sheet of December 31, 1909:

ASSETS:

Plant	$ 4,710	
Merchandise Inventory	7,385	
Accounts Receivable	12,500	
Profit and Loss	2,010	
		$ 26,605
LIABILITIES: Accounts payable		$ 10,000
		$ 16,605

A Charter was obtained from the State of Illinois with an authorized capital of $20,000.00, the balance being working capital, $2,500.00 paid in.

Prior to opening up under the new organization the Directors determined to write off $1,250.00 from the Accounts Receivable, $210.00 from the plant assets, and $885.00 from the inventory.

At the first semi-annual accounting they showed a loss from trading, aside from a depreciation allowance of $600.00.

Assuming that all assets and liabilities remain as at the start, subject to the depreciation now allowed, draw up a Balance Sheet as of June 30, 1910.

CHICAGO, ILL., MAY 24, 1911.

PART I.—(Time, 3 hours.)

1. The Ledger Balances of the accounts of John Smith at 31st December, 1910, are as follows:—

Accounts Receivable	$ 5,140 00
Accounts Payable	2,692 00
Bills Payable	658 00
Bills Receivable	217 00
Loan Advanced by J. Smith	500 00
Cash on Hand	44 00
Bank Overdraft	1,065 00
Inventory, January 1st, 1910	3,020 00
Purchases	7,386 00

Sales	16,406 00
Wages	4,839 00
Office Salaries	1,045 00
Travelling Expenses	503 00
Interest Paid	173 00
Stationery	284 00
Rent, Taxes and Insurance	222 00
Discounts and Allowances	258 00
Machinery Expense and Fuel	264 00
Freight	206 00
Incidental Expenses	151 00
Commissions	50 00
Rents Received	329 00
Capital	3,249 00
Bad Debts	97 00
	$ 48,798 00

Rent, $200.00 a year is charged to September 30th, 1910; repairs to engine estimated at $90.00, account not yet received.

Provide 2½ per cent on Accounts Receivable for discounts, also $150.00 for estimated loss by bad debts, and $20.00 for interest accrued on loan.

Prepare Trading, and Profit and Loss Account and Balance Sheet as at December 31st, 1910.

2. A testator bequeathed by his will legacies amounting to $6,700.00. His widow was to be paid $1,000.00 within one month after his death, and his household furniture was specifically bequeathed to her. $74.12 was found in the house and the cash at the bankers was $1,842.91. His investments were valued at $48,-461.12 (their nominal value being $45,000.00). His real property was valued at $68,000.00. Persons were indebted to him for loans without interest for $450.00, while his creditors were $7,276.54. The funeral expenses came to $98.16, probate and miscellaneous ex-expenses to $4,697.45.

Draw a statement, showing the "corpus" to be dealt with by the executors, assuming that the investments were bonds bearing interest at 4 per cent, that the real property yielded 6 per cent, that the former were paid off half-yearly, and the latter quarterly,

and that both interests and rents fell due two months after the testator's death.

3. A corporation is formed Januray 1st with a nominal capital of $5,000,000.00 in $50.00 Shares. There is a first issue of 50,000 shares, $2.50 per share being due on application; $7.50, making $10.00 due on allotment, Jauray 14th, $10.00 due on February 1st, and $10,000 due on April 1st. 44,652 Shares were applied for, and 43,822 were allotted on January 14th.

Give the Journal entries required to record these facts.

4. James Hewson and Walter Fellows had been in partnership for several years, and at December, 1909, desiring to retire, they entered into an arrangement to dispose of their business to William Jones, on the general terms that he, Jones, should take over everything as it then stood, subject to the following conditions. viz:

1. Inventory of Merchandise to be subject to a rebate of 6 per cent:
2. Accounts Receivable to have a deduction of 7½ per cent., to meet possible losses;
3. Office Furniture to be subject to a deduction of 12½ per cent., for depreciation;
4. Liabilities to creditors to be discharged by the 1st of February.

On the exact amount required to be paid over to the parties by Jones being ascertained, he was to pay one-fourth in Cash on February 4th, and the balance by equal installments, giving his notes for the same which are paid in cash as they fall due, dating from January 1st, at three, six and nine months, such installments to carry interest at 5 per cent. per annum.

The inventory of Merchandise on hand amounted to $21,800.00, the accounts receivable to $18,200.00 and the office furniture stood in the books at $1,250.00. The sums due to creditors amounted to $6,250.00.

You are asked, as representing Jones, to prepare the Ledger Accounts as they will have recorded and given effect to the foregoing arrangements in Jones's ledger.

5. A and A purchased land in Porto Rico on January 1st, 1909, and started a tobacco plantation, the former bringing in $100,000.00, and the latter $50,000.00 capital in cash. Five per

cent. per annum is paid upon capital, while the net profits or losses are divided equally. They draw as partnership salaries, $1,250.00 a year each and make no other withdrawals.

In the first year they spend $75,000.00 for the purchase of and payment for the land, buildings, etc., and $15,000.00 in planting the 1910 crop, which was sold in 1910 for $40,000.00, but upon which had been paid in 1910 and up to the date of the Sale, $2,500.00 for wages and sundry expenses.

In 1910 they spent $25,000.00 in further developing the estate and $40,000.00 in planting the 1911 crop.

Draw a Balance Sheet at the end of each year, 1909, and 1910, and in the partners' Capital Accounts *therein* show the condition consequent on results, there being no other assets or liabilities than these mentioned above, and the bankers' debit or credit balance, as the case may be.

PART II.—(Time, 3 hours.)

6. Having been employed to certify to the profits of a manufacturing concern for the past five years for prospectus purposes, your work reveals that the recorded profits require adjustment as follows:—

Year	Ledger	Adjustment Account	
1906 profit	$54,920 00	Reduce by	$ 4,200 00
1907 "	69,100.00	Increase by	8,520 00
1908 "	41,320 00	Reduce by	6,900 00
1909 loss	1,640 00	Reduce by	1,020 00
1910 profit	22,060 00	Increase by	1,360 00
Average Profit	$37,150 00	Net Reduction	$ 200 00

Those interested point out to you that as only the average profit for the period is required to be certified to, you may disregard the small difference of $200.00.

State succinctly your attitude and draft the certificate.

7. The Directors of a manufacturing concern incorporated in Illinois deem it expedient to pay an interim dividend out of the current year's profits, therefore at the close of the seven months' operations require you as the Company's Auditor to advise them as to an amount that would not then nor prospectively for the bal-

ance of the fiscal year be a disbursement out of capital. State in from 100 to 150 words your method of procedure.

8. On June 1, 1910, Corwin & Co. discounted at five per cent per annum with their bank a three months note dated May 1, 1910 for $5,000.00. The bank's semi-annual accounting takes place June 30, 1910.

What entries did the above transaction necessitate on the books of the bank (a) on June 1, 1910 (b) on June 30, 1910?

9. A corporation was granted a charter from the State in October, 1910, to take over two concerns as of June 30, 1910; the transfer was completely effected by November 1, 1910. Capital Stock (fully paid) $250,000.00.

The accounting was continued in the books of the purchased plants until June 30, 1911, when the net profits for the year were found to be $10,500.00 and $18,000.00.

What dividend, apart from financial considerations would such a showing justify?

10. Anderson & Brooks are equal partners. Their balance sheet on June 30, 1910, was as follows:

ASSETS:		
Merchandise Inventory	$ 35,000 00	
Accounts Receivable	61,000 00	
Furniture and Fixtures	2,500 00	
Cash	500 00	
Investments	3,000 00	$102,000 00
LIABILITIES:		
Accounts Payable	$ 50,000 00	
Bank Overdraft	15,000 00	
Anderson's Capital	21,000 00	
Brooks' Capital	16,000 00	$102,000 00

Conway is to enter the firm; preliminary thereto Anderson & Brooks revise their Balance Sheet by writing off $15,000.00 for bad debts, $500.00 from Furniture and Fixtures, 15 per cent from inventory, 25 per cent for loss on investments, and establish a good will account of $5,000.00.

Conway pays in $5,000.00 as his one-third interest, to which amount the other parties agree respectively to adjust their capital.

Give the starting balance sheet of the new firm.

CHICAGO, ILL., MAY 28, 1912.

PART I.—(Time, 3 hours.)

1. A dispute arises between two Partners carrying on a Retail business under the name of Levy & Mayer and you are called in to adjust the accounts between them, when you find the following conditions:

(a) The books have been kept on single entry and it is impracticable to go over the accounts in sufficient detail to complete the double entry.

(b) It is three years since the firm has had an accounting, when a Balance Sheet was prepared (copy of which is handed to you) and contains the following:

ASSETS—DECEMBER 31, 1908:	
Store fixtures	$ 15,000 00
Leasehold (5 years to run)	5,000 00
Merchandise on Hand	35,000 00
Customer's Accounts	10,000 00
Cash on Hand and in Bank	12,500 00
Prepaid Expenses	2,500 00
	$ 80,000 00
LIABILITIES:	
Accounts Payable	$ 15,000 00
A. B. Levy—Special Loan	20,000 00
A. B. Levy—Capital Account	30,000 00
W. K. Mayer " "	15,000 00
	$ 80,000 00

(c) You are informed that Mr. Levy's Loan bears Interest at 6% per annum and that the Capital Accounts are to be credited with Interest at 5%. Also that Mr. Mayer, who had active charge of the business, is to receive 20% of the Profits in lieu of other salary, the remaining 80% of the Profits to be divided between the Partners in proportion to the Capital contributed.

(d) The Inventory as taken as at December 31, 1911, was as follows:

Merchandise—		
Good Condition	$ 50,000 00	
Old Styles and Partly Soiled	7,500 00	
Obsolete and Useless	1,500 00	$ 59,000 00
Customer's Accounts—		
Good	$ 12,500 00	
Doubtful	2,500 00	
Bad	1,000 00	$ 16,000 00
Accounts Payable		$17,500 00

You also found that on June 30, 1910, Mr. A. B. Levy's Special Loan had been repaid with Interest and that a 5% Loan had been obtained from the Bank for $10,000.00, and that the Cash in Bank and on Hand at December 31, 1911, was $15,000.00, while the Bank Interest Prepaid was $250.00, and Insurance Premiums Prepaid amounted to $3,000.00. The Partners' Drawings on account of Profits and Interest and Commissions were found to be as follows:

	A. B. Levy	W. K. Meyer
In 1909	$12,000 00	$16,000 00
In 1910	15,000 00	15,000 00
In 1911	18,000 00	20,000 00
	$45,000 00	$51,000 00

After consultation with the Partners it was agreed to write 50% off the value of the "Old Style and partly soiled" goods and off the Doubtful Accounts Receivable and to consider the Bad Accounts and Obsolete and useless material to be of no value.

You are required to draw up the following:

(1) A statement showing how you arrive at the Profit and Loss for the three years, showing also the disposition thereof.

(2) The Partner's Accounts.

(3) A Balance Sheet at December 31, 1911, after making the necessary adjustment of the accounts.

(12½ Credits)

2. Thomas Higgins died in 1895 leaving his entire estate in trust for the benefit of his widow, and upon her death to be given to his children; the Trustees, upon discovering a large Contingent Liability which might eventually fall upon the Estate, refrained from paying out any Income. The widow dies, thereby releasing the liability; therefore, the estate is to be divided into three equal parts.

Prepare a Trial Balance and statement showing the value of the estate, from the following, and without displaying Ledger accounts or Journal entries:

Income	$ 1,025 90
Accounts due T. H..............	12,046 00
Taxes—Inheritance	7,222 00
Trustees Expense	257 50
Legacies	557 00
Mortgages Paid	3,931 00
Funeral Expenses	511 50
Accounts payable	245 00
Law Expense	388 50
Investments by Trustee.........	12,755 00
Cash in Bank...................	270 00

(10 Credits)

3. On December 31, 1911, the Balance Sheet of the A. B. Silk Company (a Missouri Corporation) was as follows:

	Dr.	Cr.
Real Estate	$ 100,000 00	
Buildings	175,000 00	
Plant and Equipment....................	250,000 00	
Inventories	500,000 00	
Accounts Receivable	350,000 00	
Cash in Banks..........................	75,000 00	
Cash on Hand...........................	5,000 00	
Interest and Insurance Prepaid.........	7,500 00	
Capital Stock		$ 300,000 00
Accounts Payable		150,000 00
Notes Payable		650,000 00
Taxes and Interest Accrued.............		15,000 00
Surplus		347,500 00
	$1,462,500 00	$1,462,500 00

Owing to certain difficulties in conducting the business under a Missouri Charter it was decided to transfer the entire business to an Illinois Corporation and accordingly a Contract of Sale was entered into whereby the Assets and Properties were to be sold to the new Company for the sum of $1,815,000 00, payable as to $1,000 000.00 in Preferred and Common Stock of the new Company, viz.—

5,000 Shares 6% Cumulative Preferred Stock..	$500,000 00
5,000 Shares Common Stock....................	500,000 00

and the balance by the assumption by the new Company of the existing Liabilities of the old Company. The necessary resolutions of the Directors and Stockholders of both Companies were duly passed, and the transaction was duly consummated. As a preliminary step, however, the Real Estate, Buildings, Plant and Equipment were valued by a firm of local appraisers, when the following valuations were disclosed:

Real Estate	$250,000 00
Buildings	160,000 00
Plant and Equipment...........	300,000 00

Draw up the necessary Journal Entries (a) for the closing of the books of the Missouri Company; and (b) for the opening of the books of the Illinois Company; and prepare Trial Balance of both Companies after your Journal Entries have been given effect to.

(10 Credits)

4. A firm of three Partners with equal capital and interest operate for three years, when the Junior withdraws.

The Partnership Agreement provides that a retiring Partner shall, in addition to his capital and share of Profits, receive by way of Goodwill two years purchase of his share of the average profits shown for the three years next preceding the date of withdrawal.

Make out a Balance Sheet, Profit and Loss Account and an account with the retiring Partner as of June 30, 1911, from the following memorandum handed to you with your instructions, on September 3, 1911, allowing for the Depreciation of Plant Account 5%, on Leasehold Account 15%, and for Discount and possible Loss on Accounts Receivable 10%.

The profits for the two previous years were respectively $44,540.00 and $55,050.00.

Capital	$ 60,000 00
Plant, Tools and Equipment	37,100 00
Leasehold	11,250 00
Merchandise Inventory—July 1, '10 (Net after deducting Reserve of $13,470.00)	12,000 00
Merchandise Inventory—June 30, 1911	19,000 00
Accounts Receivable	48,500 00
Accounts Payable	46,975 00
Merchandise Sales	137,970 00
Merchandise Purchases	69,510 00
Wages	11,500 00
General Expense	3,900 00
Bank	9,935 00
A's Drawing Account	13,750 00
B's " "	13,750 00
C's " "	13,750 00

The reserve against the Merchandise Stock which was of a very perishable nature, was found in the final settlement of the accounts with the Retiring Partner not to be required.

(10 Credits)

Answer EITHER ONE of the following TWO Questions:

5. A Manufacturing Company requiring additional funds makes application at a Banker's for a Loan of $200,000.00, submitting in support of the request its final annual financial statement as at November 30, 1911; the request for the Loan being made in May, 1912. The Banker is disposed to make the Loan, but before doing so he requires a statement of a more recent date, as late, if possible, as April 30, 1912, when it develops that the Company only takes Inventory and closes its books once a year and does not maintain such a system of accounting as will permit of regular monthly Balance Sheets and monthly Profit and Loss Accounts being prepared. You are then called in to advise what should be done and are finally instructed to prepare the best statement you can as at April 30, 1912, it being understood that no Physical Inventory is to be taken, and that you are not to make a complete audit

at this time. How would you proceed and what kind of a statement would you prepare? Give a specimen, leaving out figures, assume the business is that of Farm Wagon Manufacturing, where a steady average ratio of Profit has been maintained for a number of years past.

(7½ Credits)

6. A Water Company finds it necessary to renew a line of service mains which cost $50,000 00 seven years ago. Double capacity is now advisable for which the outlay will be $80,000.00. Depreciation at 10% per annum has been regularly charged on the first installation.

Draft the necessary Journal Entries to meet the essential facts.

(7½ Credits)

PART II (Time 3 hours)

Answer ALL of the following FOUR Questions:

7. From the following Trial Balance and information furnished, draw up— (1) A Cost Sheet; (2) A statement of Profits and Income; and (3) A Balance Sheet, showing also such intermediary accounts (if any) as may be necessary to connect—(a) the Cost Sheet with the Statement of Profits and Income; and (b) The statement of Profits and Income with the Balance Sheet.

A. B. IRON COMPANY
TRIAL BALANCE—DECEMBER 30, 1911.

Real Estate	$ 200,000 00	
Buildings	500,000 00	
Furnaces, Plant and Equipment	1,400,000 00	
Capital Stock authorized		$1,000,000 00
Stock Subscriptions unpaid	200,000 00	
Stock in Treasury	50,000 00	
5 per cent. First Mortgage Gold Bonds due December 30, 1921, authorized		500,000 00
5 per cent. First Mortgage Gold Bonds Redeemed	100,000 00	
Purchase Money Obligations		200,000 00
Ore—248,620 Tons at $2.50 per Ton	621,550 00	
Advances on Ore Contracts	50,000 00	
Coke—211,400 Tons at $3.25 per Ton	687,050 00	

Limestone—45,900 Tons at $1.00 per Ton	45,900 00	
Supply Stores on hand Dec. 30, 1911....	25,000 00	
Customers' Accounts	350,110 00	
Bills Receivable	50,000 00	
Sundry Debtors	10,000 00	
Bills Payable		350,000 00
Accounts Payable		310,000 00
Reserve for Bad Debts.................		12,000 00
Cash in Bank..........................	235,000 00	
Working Funds	5,000 00	
Depreciation Reserve		115,000 00
Blast Furnace Relining Fund..........		45,000 00
Pig Iron on hand Jan. 1, 1911 (6500 Tons	97,500 00	
Discount on Bonds	20,000 00	
Exploration and Development Expenditures	17,500 00	
Surplus January 1, 1911		583,887 00
Furnace Labor	138,750 00	
Handling and delivering ore to ore stock	24,862 00	
Handling and delivering coke to coke stock	10,570 00	
Handling and delivering limestone to limestone stock	2,245 00	
Repairs and Maintenance	15,500 00	
Electric Light and Power	9,500 00	
Blowing	10,000 00	
Laboratory Expense	4,000 00	
Yard and Switching Expenses..........	14,200 00	
General Works Expense	19,750 00	
Taxes	5,200 00	
Insurance	7,800 00	
Pig Iron Sales (109,500 Tons)..........		1,971,000 00
Allowances to Customers	54,500 00	
Salesmen's Salaries and Commissions..	50,900 00	
Traveling Expenses	2,500 00	
Stationery and Office Expenses	4,500 00	
General and Administration Expenses..	15,000 00	
Profit on sale of purchased Pig Iron....		25,500 00
Miscellaneous Income		17,500 00

Interest on Bonded Debt	15,000 00	
Interest on Bills Payable	22,000 00	
Expenditures incurred on account Relining Blast Furnace	38,500 00	
	$5,129,887 00	$5,129,887 00

The production of Pig Iron for the year was 115,000 Tons, and the Materials consumed or used to obtain this production were:

Ore	240 000 Tons
Coke	210,000 Tons
Limestone	40,000 Tons

The Bond Interest Accrued and not taken upon the books was $5,000.00, while Interest amounting to $4,000.00 on Bills Payable was paid in advance. There was $5,000.00 of Furnace Labor Accrued but not paid. The Taxes accrued but not taken up on the books were $2,300.00, exclusive of Federal Corporation Tax, which should be provided for, and Insurance Premiums Paid in advance amounted to $1,800.00. A provision of 15c per ton of production should be made for Relining Furnaces; and the Directors authorized a further provision for General Depreciation of Buildings, Plant and Equipment of $50,000.00. The Discount on Bonds should be absorbed over the life of the Bonds and one-fifth proportion should be written off the Exploration and Development Expenditures.

In calculating the Cost Units, you need not figure beyond two places of decimals; and in making these calculations the Operating Expenses (as distinct from Materials) may be grouped into two classes, viz.: (1) Labor; and (2) All other Operating Expenses. All other unit costs may be ignored.

(15 Credits).

8. White and Black agree to sell their business to a Corporation for $175,000 00, including book debts, Stock and Plant, precisely as they figure in the Balance Sheet to be made up as of December 31, 1911, without Reserve, but Bills Receivable and Payable are not included. The new Company assumes the Liabilities in open account. White and Black agree to bear the preliminary expenses, such as advertising, and a portion of the legal charges, which amount to, say, $625.00.

The Company takes possession at the close of business December 31, 1911, but the actual transfer is delayed until March 25, 1912, by which time the Notes Payable have been taken up.

The Balance Sheet of December 31, 1911, is as follows:

Merchandise	$17,555 58	Accounts Payable	$16,086 00
Plant	5,000 00	Bills Payable	5,000 00
Accounts Receivable	51,620 87	Johnson Loan	2,500 00
Bills Receivable	7,145 00	Interest thereon	31.25
Bank	1,182 50	Reserve for Rent and Taxes	636 70
		Reserve for Bad Debts	750 00
		White Capital	32,500 00
		Black Capital	25,000 00
	$82,503 95		$82,503 95

State the account as between the vendors and the Company and as to the respective Partners—the Company pays 5 per cent. Interest on the Partner's Capital, and all Profit otherwise made is divisable as usual—White 3-5ths, Black 2-5ths.

Interest due December 31, 1911—$31.25 to W. Johnson Loan Account, has been paid in the interim out of the business.

(10 Credits).

9. Owing to a rapid growth of the business the A. B. Company found it necessary to raise additional funds, and accordingly on January 1, 1911, it entered into an agreement with a Bond House for an issue of $500,000.00 First Mortgage 6 per cent. Gold Bonds, which were ultimately sold to the Bond Brokers at 95 per cent. of Par; the Company also paying as additional compensation to the Brokers a Commission of 2 per cent. The Expenses of the Issue, including Legal Expenses for drawing the Mortgage, etc., cost of Engraving the Bonds and Trustees' Fee, were $10,000.00, the Net Proceeds of the issue being finally paid over to the Company's Treasurer. During the year 1911 the Company made Net profits of $150,000.00 after providing or setting aside $50,000.00 for the Depreciation and Obsolescence of Properties, and it also paid a Dividend to Stockholders of $50,000.00. The Real Estate was also appraised during the year at an increased valuation of $25,000,00,

which was credited to Surplus Account. The financial position of the Company on Jan. 1, 1911, (before the Bond Issue was negotiated), and again on December 31, 1911, the end of the Company's fiscal year, are set out below, from which you are requested to prepare a brief and intelligent statement showing what was done with the new funds provided as indicated above.

A. B. CO. BALANCE SHEET.

	January 1, 1911		December 31, 1911.	
Capital Stock ....$		$250,000 00 $		$ 250,000 00
6 per cent 1st Mtg. Gold Bonds				500,000 00
Real Estate	50,000 00		75,000 00	
Buildings, Plant Equipment, at cost	300,000 00		425,000 00	
Inventories at cost	200,000 00		350,000 00	
Accts. receivable..	150,000 00		245,000 00	
M'k'able Securities (sold during yr. for $40,000.00, loss of $10,000.00 being charged off to profit and loss Acct.)	50,000 00			
Advances on building contracts ...			20,000 00	
Cash on hand and in Bank	35,000 00		85,000 00	
Notes payable Bankers' Loans		200,000 00		
Accounts payable.		150,000 00		100,000 00
Depreciat'n res've		75,000 00		125,000 00
Exp. bond issue..			10,000 00	
Surplus		110,000 00		235,000 00
	$785,000 00	$785,000 00	$1,210,000 00	$1,210,000 00

(10 Credits).

10. A Partnership between three persons had run for three years upon the following Capital and interest in Profits:

A	$9,000.00	3-8 Interest
B	8,250.00	3-8 Interest
C	2,000.00	1-4 Interest

The Annual Profits, which had been credited to the Partners' Personal Accounts, were as follows:

1908	$30,510 75
1909	29,026 30
1910	37,026 75

Thereupon C expressed his dissatisfaction and announced his intention of dissolving the Agreement on December 31, 1910, so far as he was concerned, unless he was placed in the same position as to Profits as A and B, dating back to the opening of the Agreement, January 1, 1908.

A and B agree to this provided C will agree to a transfer from his Personal Account of a sum sufficient to equalize the Capital Accounts. This is accepted by C subject, however, to the aggregate stated Profits being revised by charging A's Capital Account with $2,250.00, and $1,500.00 against B's Capital Account, also that $1,250.00 be charged to Office Furniture.

Assuming the books to have been closed each year under the original terms of Agreement, draft the Journal Entries necessary to adjust the Accounts and show the relative condition of the respective Capital and Personal Accounts at the opening of the new Partnership, January 1, 1911.

(10 Credits).

Answer EITHER ONE of the following TWO Questions:

11. On January 1, 1910, XYZ Company acquired the entire Capital Stock of the PQ Company, consisting of 1,000 Shares of a Par Value of $100.00 each, for which was paid the sum of $150,000.00. After the transaction was recorded on the books of the XYZ Company, the Balance Sheets of the two Companies were as follows:

	XYZ Company		PQ Company	
Real Estate	$ 50,000 00	$	$ 25,000 00	$
Building, Plant and Equipment	75,000 00		45,000 00	

Goodwill	25,000 00			
Investment in PQ Co.	150,000 00			
Inventories	80,000 00		20,000 00	
Accounts Receivable	70,000 00*		85,000 00	
Accounts Payable.		50,000 00		50,000 00*
Loans		50,000 00		
Capital Stock		250,000 00		100,000 00
Surplus		100,000 00		25,000 00
	$350,000 00	$450,000 00	$175,000 00	$175,000 00

* Includes Account of $15,000.00 due by PQ Company to XYZ Company.

Prepare a Consolidated Balance Sheet.

(5 Credits).

12. Three merchants, A., B. and C. decide to commence business and pay in as Capital $25,000.00, $15,000.00 and $10,000.00, respectively. Profits or Losses to be apportioned correspondingly. At the end of the first year an account is taken showing a profit of $7,500.00. A withdraws from the firm, and after an amount is agreed upon as an allowance for Bad Debts, viz., $1,250.00, he is paid off in Cash, and B. and C. take over the business jointly.

Draft the necessary Entries, showing the closing and adjustment occasioned by the change.

(5 Credits).

AUDITING

CHICAGO, NOV. 2D AND 3D, 1903

(Time 3 Hours.)

1. What is the general course for an accountant to follow in making a regular annual audit of the books of a manufacturing corporation?

2. Where a number of manufacturers contemplate consolidating, what means should be taken to insure the statements of assets and liabilities and profits being on the same general plan?

3. What is the best method for carrying additions to plant on the books of a manufacturing corporation? Give reason for answer.

4. Is an auditor in any way responsible for the validity of the transactions shown on the books of a business? What means should be taken by an auditor to satisfy himself of the accuracy of the entries on ledgers, cash books, journals and sales books?

5. What is the auditor's responsibility in the matter of vouchers for payment? What is his responsibility where there are not any regular vouchers?

6. Can an examining accountant satisfy himself of the general correctness of inventories without himself taking the quantities and verifying the prices, extensions and additions? Give full particulars.

7. Where the books of a co-partnership or corporation show large additions to buildings and machinery, consisting of portions of pay rolls, without explanation, what means should be taken to prove or disprove the accuracy of the charges?

8. How would you account for the proceeds of sales to customers without checking each entry?

9. What means should the auditor take to satisfy himself that the debts of a business are on its books?

10. Give a list of the books of a corporation which the auditor should examine.

CHICAGO, MAY 2, 1904.

(Time 3 Hours.)

1. State whether depreciation is an element of the cost of manufactured products. If so, why?

Explain form of journal entry necessary to carry depreciation on the books, and explain how it would be shown on the balance sheet.

2. What course should be followed in making an annual audit of a trust company in Illinois and what are the more important features of the business to be given consideration? The trust company, in addition to its ordinary banking features, also handles various trusts, acting as trustee, administrator, conservator and guardian.

3. In auditing the accounts of a railroad company, what is necessary to determine whether the equipment has been fully maintained?

4. What course is necessary for the auditor to follow to satisfy himself that all outstanding liabilities are included in his balance sheet? How would he proceed to verify the current assets?

5. In passing upon the value shown in the inventory of a leaf tobacco house, how should the auditor treat leaf costing $12.00 per cwt. when the market price is $10.00 per cwt., and when the market price is $15.00 per cwt.? State reasons fully.

6. What rules should the auditor follow in distinguishing between capital and maintenance expenditures?

Are working or job orders, covering a company's expenditures on its own account, of any value to the auditor when examining the general books?

7. What means should be taken to verify a corporation's indebtedness in respect to mortgage bonds and capital stock?

8. After the organization of a corporation, it proceeds to construct a manufacturing plant, paying for the same in cash realized from the sale of capital stock at 80 cts. on the dollar. When ready for operation, what items would be included in the cost of such a plant?

9. In auditing the books of a business which is to be disposed of and where the seller guarantees to the purchaser the open accounts receivable, what action, if any, should be taken by the auditor as to such accounts receivable?

10. A Chicago business house operates a number of branches in different cities to which consignments are made for sale. If employed as the auditor of these branch houses, what general course should be followed? Submit a sketch of a general form showing the results of the business as a whole, including the Chicago house and its branches.

CHICAGO, Nov. 14, 1904.

(Time 3 Hours.)

1. You are auditing the annual accounts of a company, which possesses amongst other assets a leasehold warehouse, the lease of which has still another forty years to run from the date of the last balance sheet, at which time it stood on their books at $100,000.00, and this amount still remains unchanged. The lease was acquired ten years ago on the formation of the company and is considered to have a realizable value of about $150,000.00. The outlay has been incurred as to $50,000.00 by rebuilding two years ago, since which time nothing has been written off. No systematic treatment of the subject has been adopted, but considerable sums have been written off from time to time out of the profits earned in the previous years. Dividends are only payable out of the profits of the company. As auditor of the company you are asked to decide between the following views:

(a) Nothing need be written off at all, because the property would now sell for what it stands at or more.

(b) The most convenient plan is to continue applying occasionally such profits as it is not desired to distribute the dividends.

(c) An equal 40th part should be written off annually.

(d) A sinking fund should be created and compounded so as to produce $100,000.00 in forty years.

Criticise each of the above plans, stating which you recommend, if any, and why.

2. You are appointed the auditor of an estate the assets of which consist of Real Estate (Improved City and Farm Lands) Corporation Stocks (Common and Preferred), Railroad Bonds (with coupons attached and without coupons attached), and First Mortgages on Farm Property. How will you verify the revenues

from the various classes of assets, and what procedure would you take to verify the existence of these assets? In your first audit, what would be the first two things you would examine?

3. An investigation of the details of an inventory dater January 1, 1904, brings to light the following entry:

Contract dated July 1, 1903, for delivery of 20,000 tons of ....between January 1st and June 30th, 1904, at $25.00 per ton, the market price at date of inventory being $27.50,——$50,000.00.

Discuss the validity of the above entry under the following circumstances:

(a) In the preparation of a certified balance sheet for stockholders' meetings.

(b) In investigation on behalf of a client who is considering the purchase of the majority of the capital stock of the company.

(c) In investigation and preparation of certified balance sheet for the Company (the Company being your clients) which they desire to submit to their bankers.

4. Describe various methods by which you would satisfy yourself that the total Accounts Receivable on a Balance Sheet accurately represents the true facts.

5. A corporation has a capital stock of $100,000.00. It has assets at inventory value amounting to $160,000.00. With a view to reducing the number of its enterprises, it sells two of its stores for $85,000.00 at inventory value. This $85,000.00 is distributed among its stockholders. What entries should be made upon the books, and what procedure would you recommend in order to safeguard all interests in making such distribution?

6. A Company incorporated with a capital of $200,000.00, fully paid up, has sold its stock at a premium of 25 per cent, thus realizing in cash $250,000.00. The By-Laws, which cannot be amended except in a stockholders' meeting and after proper notice of such amendment, having been mailed to each stockholder ten days prior to the meeting, contain a provision that the $50,000.00 so received over and above the capital stock at par, shall be placed to the credit of a Special Reserve Account, and that this fund shall not be applicable towards the payment of dividends. At the close of the first fiscal year, it is found that the Company has made a net profit of $4,000.00, after charging

$6,000.00 for depreciation on the buildings and machinery. The directors desire to pay a cash dividend of five per cent and pass a resolution ordering that the depreciation referred to above shall be charged against the above Special Reserve Account instead of against Profit and Loss, and they then proceed to declare a dividend of five per cent. Discuss the above situation from the standpoint of an accountant.

7. Describe the general course to be followed in making a National Bank examination.

8. While auditing the accounts of a jobbing firm, the cashier and bookkeeper disappear. The client believes he has been guilty of embezzlement, and asks the auditor to report as quickly as possible to him, what sum, if any, has been taken. The auditor tests postings of cash from customers without finding irregularity, and also finds that receipts have been taken and are on file, for all moneys actually paid. Where would you look under such circumstances for the method pursued by the probable embezzler in covering a shortage?

9. Give method of preparing a balance sheet where ledgers have not been closed.

10. In the case of a consolidation of three manufacturing concerns, how would you determine the good will of the consolidated company?

CHICAGO, MAY 8, 1905.

(Time 3 Hours.)

1. Give particulars of course to be followed in making detailed audit of the accounts of a grain and stock brokerage house.

2. When auditing the accounts of a wholesale grocery house it is found that a fire has just destroyed the entire stock of merchandise. What course would you follow to approximate the inventory?

3. At the first annual audit of the books and accounts of an electric street railway company the books show an actual investment exceeding $1,000,000.00, while the aggregate amount of repairs and renewals for the year have been but $10,000.00. What course should the auditor follow in preparing Profit and Loss Account for the year?

4. Criticise the following Profit and Loss Account and Balance Sheet of a private firm trading in provisions from the point of view of a Bank which contemplates advancing $20,000.00 to the firm. The clerical accuracy of the books has been verified.

PROFIT AND LOSS ACCOUNT.

(Year Ending December 31st 1905).

Stock at 1-1-5	$ 50,000 00
Purchases	40,000 00
Wages and Salaries	8,000 00
Office and Gen. Exp.	7,000 00
etc.	15,000 00
Interest on Loans	2,700 00
Bad Debts	800 00
Profit	37,000 00
	$160,500 00
Sales, less returns	$ 80,000 00
Stock 31-12-5	75,000 00
Dividends on investment	5,500 00
	$160,500 00

BALANCE SHEET.

Assets.

Book Debts	$250,000 00
Stock as per Inventory	75,000 00
Investments at Cost	50,000 00
Goodwill	10,000 00
Lease on Premises	5,000 00
Furniture, etc.	1,000 00
Cash in Hand	500 00
	$391,500 00

LIABILITIES.

Trade Creditors		$344,500 00
Loans		27,000 00
Partners Capital Account at 1-1-5..........$	8,000 00	
Profit for year	37,000 00	
	$ 45,000 00	
Less:—Drawings during year..............	25,000 00	20,000 00
		$391,500 00

5. Before certifying a Balance Sheet what steps should an auditor take to satisfy himself of the accuracy of the valuation placed upon the following assets:?

a. Stock in Trade.
b. Investments
c. Plant and Machinery.
d. Cash in hand at Branch Establishments.
e. Patent Rights.
f. Patterns.

6. It is contended that it is unnecessary to write off depreciation on

a. Freehold Premises.
b. Plant and Machinery.

provided that they are maintained in a full state of efficiency out of revenue.

Give briefly your own views on this subject.

7. A corporation issues bonds, proceeds to be used for construction purposes. If bonds are all sold at a discount, to what account should the discount be charged? If sold at a premium, to what account should the premium be credited?

8. In auditing the books of a manufacturing company, what important principles are involved? Answer fully.

9. In a public utility proposition, how does the auditor best determine the reliability of the revenue?

In passing upon discounts and bad debts, how would you state them in reports?

10. Finance corporations holding a large number of shares in other corporations are in the habit of valuing their securities for

Balance Sheet purposes at either (a) cost price, or (b) market price at the date of the Balance Sheet.

Discuss the respective merits of the two methods and say which you consider the soundest from an accountants' point of view.

CHICAGO, MAY 9, 1906.

(Time 3 Hours.)

1. You are called upon to audit the books of a "Holding Company", owning 90 per cent of the stocks of six large manufacturing companies scattered over the United States. From the books of the "Holding Company" you are requested to prepare a Certified Balance Sheet and Profit and Loss Account, it being stated that it is not to be used for publication, but will be mailed to one of the shareholders who appears to be disgruntled. Balance Sheets and Profit and Loss Accounts of the subsidiary companies signed by their respective Secretaries, are produced for your inspection but you are refused access to the actual books of account of these companies. Explain fully what your course of action would be in this matter and your reasons therefor.

2. In an audit stipulating for the examination of all vouchers of every description, what would be proper vouchers for the following: purchases, returned purchases, sales, returned sales, cash receipts, cash payments, journal entries?

3. You are called upon to examine the books of a Life Insurance Company. Explain fully how you will verify the fact that all securities carried on the books of account are duly accounted for, and your method of carrying out such verification?

4. You are called upon to audit the books of account of the executors and trustees of an estate. The executors completed their duties 18 months after the death of decedent. Explain the essential features of an audit of this character.

5. You are called upon to make a balance sheet audit of a National Bank with a Capital Stock of $1,000,000.00 and deposits of $10,000,000.00. Explain fully how you will verify the cash balances.

6. A Construction Company is carrying out work on a number of contracts. At the close of its fiscal year, these contracts are in all stages of completion, from those which are just begun to those which are almost finished. How should you compute their value as an asset in the Balance Sheet?

7. What step would you take to satisfy yourself that the cash receipts of a business for a year are as stated on the books?

8. In determining the result of the operations of a comapny whose business requires the use of a large number of tools and implements, what general rule would you consider?

9. In presenting a balance sheet, what items are matter of fact and what items are opinions, and taken as a whole, are you establishing a fact or an opinion?

10. Can, or cannot, a going concern, employing a salaried manager and superintendents, charge any part of their salaries to cost of improvements or extentions that may be added to the plant at intervals? In either view, why?

CHICAGO, MAY 8, 1907.

(Time 3 Hours.)

1. You are elected the auditor of a corporation by the holders of both common and preferred stock and it is your duty to safeguard the interests of both classes of stockholders. The preference stock bears seven per cent and is non-cumulative. Mention what precautions you would adopt to safeguard the interests of the preference shareholders, giving reasons therefor.

2. A club obtaining its revenue from initiation fees, dues, restaurant, wines, cigars, billiards and cards, has a treasurer who reads to the directors at each monthly meeting, a statement of the receipts and disbursements of the month just prior. What are the advantages of such a statement and wherein does it fall short?

3. Referring to the preceding question state how you would handle initiation fees in the preparation of the Club's Annual Report containing Balance Sheet and Profit and Loss, and give your reasons therefor.

4. The firm of Catchem & Cheatam engage in a restaurant business where all sales are for cash, with the express purpose of at a later date selling out same on the strength of the large profits shown on the books. With the object in view they grossly pad their sales every day and make compensating fraudulent entries on the disbursement side of the cash book purporting to represent cash withdrawals of partners, and all records by which the cash sales might possibly be verified are destroyed. Catchem and Cheatam make a proposition to Mr. A. to sell their business to him

and on the showing of profits made by the books, Mr. A. seriously considers the same, but engages a certified public accountant to make an examination. The Accountant fortunately discovers the fraud. How did he probably discover the fraud and what was his method of procedure?

5. The audit of a corporation on the instructions of its President, reveals the following condition:

ASSETS.

Real Estate, Plant and Machinery	$ 500,000	
Merchandise of all kinds	200,000	
Bills Receivable	50,000	
Accounts Receivable	275,000	
Sundries Accrued	4,500	
Cash	37,500	
		$1,067,000

LESS LIABILITIES.

Bills Payable	$ 250,000	
Accounts Payable	40,000	
		290,000
Net Resources		$ 777,000

The Capital of the corporation is $1,000,000 with deficit of $223,000. The audit brings out the fact that included in the Accounts Receivable is an item of approximately $50,000 due by the President of the Company. In certifying to the Balance Sheet the President requests you not to show as a separate item the amount due by him, but to include it as shown above in the Accounts Receivable for the reason you are informed, that your certificate is to be used for the purpose of selling $250,000 Bonds secured by mortgage on the real estate, plant and machinery, the proceeds of which will be used to liquidate the present bills payable. The President of the Company is reported to be worth $200,000 over and above the value of his stock in the above Company. What course of action would you take? State reasons therefor. If the certificate was stated to be for the purpose of handling certified balance sheet to their bankers or to present to

annual meeting of shareholders, then what would be your course of action and why?

6. In case you are called upon to audit the books of account of an executor or trustee under a will, state your method of procedure and also show briefly how you would prepare the acocunt in the most intelligent manner.

7. The senior member of a firm of Certified Public Accountants employing about fifty assistants having arrived at an age when he no longer cares to be actively engaged, retires; but the partnership agreement provides that he shall still retain a one-fourth interest in the profits on account of the goodwill attached to his name. Three years after he has ceased to be actively engaged in the business, the profits drop considerably, and fearing that his partners are not acting squarely he proceeds to audit the accounts of the firm. If you were in his place how would you proceed to audit same and satisfy yourself that everything was properly accounted for or otherwise?

8. An auditor is engaged by a man who is buying an interest in a firm, for the purpose of reporting upon the assets and liabilities of the firm as at a given date and upon the profits of the three years just prior. Upon the auditor's report he purchased an interest in the firm and in its assets and liabilities. Six months later it is discovered that there were bills payable due by the firm amounting to $10,000 at the time the auditor made his examination and not reported upon by him and that these bills had continuously been due by the firm for one year prior to such examination, but no record of same had been made upon the books. Under what circumstances could the auditor be considered guilty of negligence in not discovering this fact and under what circumstances could he be considered entirely free of any blame in the matter.

9. An auditor is called upon to verify a Balance Sheet and upon investigation he finds that unexpired insurance interest paid in advance on discounted notes, taxes accrued, interest accrued on demand notes and bonded indebtedness, royalties, etc., are not included in same. He is informed that it has not been the custom of the corporation to include in their balance sheet such items, as they offset one another, and that the Directors do not desire any change in the practice they have adopted. Discuss this proposition, stating reasons for your conclusions.

10. Explain the various measures which you would adopt to verify whether or not all cash received had been duly accounted for on the books of the concern you were auditing.

CHICAGO, ILL., DECEMBER 3, 1907.

(Time, 3 Hours.)

1. In the examination of the accounts of a brewery, how would you determine whether the amount of beer produced and disposed of during the year was in proper relation to the conditions disclosed by final inventories?

2. An interurban railway company, wishing to provide against possible accidents, adopted the plan of depositing 2 per cent of their gross receipts each month in a local savings bank as a reserve for that purpose, charging the funds so set aside to an account which they designated "Reserve for Accidents." The total fund for the year amounted to $4,869.26, out of which they paid $950 for accidents occurring and settled during the twelve months, debiting such payment to Accident Account, and leaving a cash balance in the bank on December 31, of $3,919.26.

The book-keeper endeavored to close the books by showing the $4,869.25 as a charge against operating for the year arising out of accident liability, carrying over the balance in bank ($3,919.26) to provide for future accidents, and making a corresponding credit to the "Reserve for Accidents" account. This left the company with cash assets of $3,919.26 not represented on the books.

Wherein did the book-keeper err and what entries should have been made to show the transaction correctly?

3. In making an audit of a large bank where many of the bills discounted are in the form of demand notes upon which partial payments of principal and interest are permitted to be made, and where in many instances the customer, as he hands in his check, does not wait to see an endorsement of the payment actually made at the time by the bank employee, how would you assure yourself that one of the entries covering such partial payments were held over until the next day, while the check or currency might be slipped into the Teller's cash?

4. In the construction of a large building the proprietors issue \$800,000 20-year 6 per cent. bonds which are disposed of to the contractors at 85 per cent. of their face value. You find, upon examination, that the discount of 15 per cent. has been charged to Construction Account in the first place, and then into Building Account.

State whether you consider the final entry legitimate or not, and give reasons.

5. In the examination of the accounts of an important railroad, it appears that none of the invoices and material purchased appear on the company's books until they have been approved by the Purchasing Agent and Division Superintendents, although the various store-keepers' reports show that much of the material and supplies has actually been received.

How would you deal with such a condition and determine the real position of the railroad with respect to purchases not taken up on the voucher register?

6. In examining the affairs of a private country bank, it is ascertained that no record of certificates of deposit has been kept except in the general ledger. It also appears that partial payments have been occasionally made on certain certificates which are still in the hands of the depositor.

How would you proceed to determine the liability of the bank with respect to certificates of deposit outstanding?

7. Assuming that all cash discounts on purchases made during the year have been taken advantage of, and the ledger account shows a substantial credit, to what account would you close the balance? In the case of a jobbing concern? Of a manufacturer?

8. In the case of a street railway which allows its conductors to sell tickets covering transportation for ten and twenty-five rides at a lower rate than it demands for cash fares, how would you apportion the revenue so received, bearing in mind that at the end of each month many tickets remain unredeemed.

9. In a large country store containing several departments considerable produce is taken in the grocery section from farmers and others, for which trading orders are issued redeemable in merchandise only through the other departments. How would you determine the profit or loss in each department?

10. A trading and mining company maintains five general stores at each of five separate stations, and concentrates its sup-

plies each year at Station A, which is the only one accessible by railway, and distribution is made from thence by means of wagon and pack trains. The cost of goods laid down at Station A is 10 per cent. above invoice prices at the company's general office in Montana; and the agent at Station A is instructed to re-bill all shipments to Station B at 20 per cent. above original invoice cost; to Station C at 35 per cent; to Station D at 40 per cent., and to Station E at 50 per cent., the experience of several years bearing out the General Manager's statement that such additions are approximately correct and cover actual cost of transportation.

In auditing the accounts for the purpose of certifying the annual balance sheet, you ascertain that certain goods at Station D amounting to $10,000, are inventoried by the Agent at that point at 70 per cent. above the original invoices which you have examined at the home office. He states that Station E, being overstocked, shipped him several lots of merchandise at price billed out to E by Station A, plus 10 per cent. for estimated cost of handling and repacking at E; and to this D legitimately added 10 per cent. for cost of transportation from E back to D.

In your visit to other stations you find many similar instances where goods have been moved back and forth and each time the shipping station has added 10 per cent. for handling and repacking.

Out of a total inventory at all stations of goods originally costing $200,000, the summary shows final extensions of values aggregating $325,000, of which not more than $75,000 is covered by cost of transportation, leaving some $50,000 represented by internal charges added between the different stations.

Review the foregoing statement and give your method of handling such accounts.

CHICAGO, ILL., MAY 4, 1908.

(Time, 3 hours.)

1. In a case where the preferred shares of a company are issued under a provision that the annual dividends to which they shall be entitled shall be "cumulative", would you consider it necessary to show any arrears of dividend as Liability upon the Balance Sheet, or how would you deal with it?

2. What special points in the Balance Sheet of a company,

aside from the correctness of the figures, require careful consideration by the Auditor?

3. In making an audit of the accounts of a corporation, would you consider it part of your duty to verify the transfers of the certificates of Capital Stock occurring during the period covered by your examination?

4. In financing a manufacturing company, it is considered necessary to arrange for an issue of $300,000 first mortgage 5 per cent. 20-year bonds, $500,000 6 per cent. non-cumulative Preferred Stock which may be retired any time after five years, and $1,000,000 Common Stock. The bonds are disposed of at 90 per cent of their face value and proceeds used for erecting buildings and purchase of machinery and equipment.

The Preferred Stock is sold at 85 and one share of the Common Stock is given with each share of Preferred Stock, the Common stock remaining being disposed of at 40. How could you deal with the discount in each case?

5. A company whose capital stock is $250,000 divided into $100,000 6 per cent non-cumulative Preferred shares and $150,000 Common shares, begins its life with an excess of liabilities over real assets to the extent of $10,500, which sum is debited to Suspense account. During the first few years small losses are made and carried forward on the Profit & Loss Account, but finally sufficient profits are earned to wipe out the losses of the previous years and leave a balance of $16,500.

The holders of the Preferred Stock claim that any surplus profit, after payment of the preference dividend, should be used to extinguish the Suspense Account.

The holders of the Common Stock claim that all of such surplus is properly available for their dividend on the ground that the original deficiency carried to Suspense Account was in effect a charge to good will.

Give briefly your understanding of "good will". State how you would deal with it in this case, and whether the Directors may pay any dividend on the Common Stock.

6. A suburban traction company, after equipping its line at a very considerable expense for overhead trolley and operating same for several years, decides to adopt the third-rail system. Extensive changes are necessary in changing power-houses, rearranging tracks and altering cars, involving an expenditure of

$25,000. In addition, considerable machinery and rolling stock, the original cost of which had been treated as a capital outlay and was carried on the books at a valuation of $25,000, is rendered obsolete and is disposed of for $3,500, showing a loss of $21,500. The profits from operation for the year are $18,000.

State how you would recommend that the matter be dealt with in the company's accounts, and whether the company can pay a dividend?

7. A firm having several branches maintains an account with each branch in the Ledger and charges to such account all goods sent to the agents for stock. When stock is taken the balance of each branch account is treated as ordinary Accounts Receivable and is included in the General Debts owing to the firm. If you see any objections to this method, state them, and say how you would deal with the accounts.

8. Presuming that upon examination of a merchant's accounts the balance shown by the bank pass-book, or certified by the bankers, agreed with the balance shown in the merchant's books, would you consider any further examination necessary?

State reasons for your reply.

9. Define your understanding of the principle involved in determining what are and what are not expenditures from Capital.

10. You are instructed to make an audit by a merchant selling finished goods, or by a manufacturer. State all your responsibilities. Name the financial statements you should make and give a form of certificates.

CHICAGO, ILL., NOVEMBER 20, 1908.

(Time, 3 Hours.)

1. In examining the partnership accounts of Black & Brown you ascertain that the capital of $20,000 has been provided equally, and the articles of partnership provide that if any excess capital is supplied by either partner, interest at the rate of 5 per cent per annum shall be allowed. Black pays in $5,000 additional and is credited at the end of the year 5 per cent. on same which equals $250.00, which is debited to Brown. State whether you consider this correct and give reasons for your answer.

2. In the examination of a business you find that all past due accounts receivable are promptly charged to a Suspense account and the Suspense account is plainly stated on the Balance sheet among the assets. Do you consider this satisfatcory; or what form of account would you recommend should be set up to care for such items?

3. Outline method you would adopt in auditing the accounts of a municipality so as to satisfy yourself that all amounts paid in on account of taxes have been duly entered on the books.

4. State how you would deal with the following items of account in making an audit of an Illinois company.

a. Premium paid for a lease.

b. Commission on an issue of capital stock.

c. Discount on an issue of bonds, proceeds of which are used for plant construction.

d. Expenses incidental to organization.

e. Cost of removing certain machinery to a different part of the works and adding some new machinery.

Give reasons for your answers in each case.

5. After having been employed as auditor of a firm for several years, the partners advise you that they have decided to conduct their business as a corporation and have secured a charter under the general laws of the state accordingly. In what way would your duties as an auditor be affected by such a change?

6. In large businesses internal auditors, members of the staff of the concern, are frequently the only ones employed. Where this is the case, do you think it desirable that professional Certified Public Accountants should be engaged? If so, give your reasons?

7. How should the following assets be valued for a Balance Sheet? Manufactured Goods, Debts due the Concern, Partially Manufactured Goods, Bills Receivable?

8. Assuming that you have been appointed auditor to a corporation or private firm on its formation, and have been asked to state for the guidance of the cashier and bookkeeper the requirements you would expect to have been fulfilled when you come to make the audit, write out detailed instruction in the form you would actually give them.

9. What evidence would you require, first, as to the existence of assets (other than book debts) shown in a Balance Sheet; and,

secondly, as to the correctness of the amounts at which they were entered in the books.

10. Does an Auditor's duty in any way extend beyond the careful examination and certifying of the books and accounts submitted to him. Discuss different theories.

CHICAGO, ILL., May 3, 1909.

(Time, 3 Hours.)

1. To what extent do you consider it an Auditor's duty to examine into and report upon the stock inventories and the methods by which the stock has been taken and valued?

2. A company shows among its assets $2,675.00 as unexpired insurance on January 1, 1907. On February 1, 1907, the plant is destroyed by fire and a total loss of $57,875.00 occurs, which the Insurance Company pays. How would you treat the $2,675.00 unexpired insurance item?

3. In auditing the accounts of a Manufacturing Company would you consider it proper to allow the Profit and Loss account to be credited with profit on uncompleted work?

4. State your understanding of a "continuous audit". What are its advantages over a yearly or half yearly audit? Can you point out any special dangers to which it is exposed?

5. You are employed to audit the accounts of the Utility Mills and find that the machinery after having been regularly depreciated for a number of years has been valued by an independent appraiser at a sum considerably in excess of the book value, and the Company has appreciated the machinery item in the balance sheet by such increased value. How would you suggest that the corresponding credit should be dealt with? Would such an appreciation be available for distribution in the shape of a dividend?

6. Give six typical examples of Fraud, of which only four involve the abstraction of actual money, and explain shortly what means you would suggest to reduce the risk of loss under each of these headings to a minimum.

7. Explain shortly the effect of a fall of the Tael on each of the following:

A Chicago concern carrying on a general trading business in China;

A Chicago corporation owning a railroad in China.

A Chicago-Chinese Bank.

Confine your answer to the effect that the variation in exchange should have on the published accounts.

8. A corporation purchased a business as a going concern on January 1st, 1908, with a right to the profits from October 1st, 1907. Its capital is:

5 per cent. First Preferred Stock..........	$250,000 00
6 per cent. Second Preferred Stock........	$250,000 00
Common Stock	$124,000 00

The year's profits to September 30th, 1908, are found to have been $38,320.00. What appropriation of such profits would you consider to be correct?

9. A Cash Book exists with three columns on each side, viz., Debit Side, Discounts, Cash Receipts, Bank; Credit Side, Discounts, Cash Payments, Bank.

In making an audit, you find that the Cashier closed his Cash Book at the end of a month, bringing down a cash balance of $177.91; you count his cash and find that he has only $119.12. On going carefully through the month's transactions, you find that $45.37 paid in cash had been entered in the Bank column; the total of a previous page of Cash Receipts, $2,516.25, was brought forward as $2,525.75; the discount $2.50 on an account paid had been entered in the Cash column as a payment instead of in the Discount column; $10.00 received from a partner for payment of a private account had been included in the Cash in Hand, but not entered in the Cash Book.

Rule a form of Cash Book as above, enter the balance brought down, and make entries to correct the errors above described. Show the deficiency still existing, and state how it should be dealt with.

10. Reply to the following letter:

Dear Sir:

We wish you to audit our accounts for the past ten years and to report thereon. In your report please state what dividend may in your opinion be fairly expected in the future if the business is taken over by a corporation with a paid up capital of $500,000.00. The capital of the partners during the period named has been

$375,000.00, and the profits divided have averaged over 15 per cent., as shown by the accounts you are asked to verify.

Yours very truly,

SMITH & BROWN.

CHICAGO, ILL., May 2, 1910.

(Time, 3 hours.)

1. Define the different responsibilities of an auditor of the accounts of (a) an individual; (b) a firm; (c) a corporation.

2. An attorney-at-law joint an established firm in partnership without having the books investigated, relying on the firm's statement that they are making a certain profit. After several months have elapsed, the new partner, not being satisfied, instructs you to audit the accounts for the year immediately prior to his joining the firm. You discover that no break has been made in the books for years; what steps would you take to ascertain the exact profit for the year?

3. In the case of a corporation the management suggests the diminution or suppression of depreciation on plant and machinery on these grounds:—

(a) Nothing need be written off as the plant is actually more valuable, owing to a rise in the cost of similar machinery.

(b) Repairs have been fully maintained, and the plant is as good as ever.

(c) To charge depreciation to the same extent as in a good year will prevent a dividend, with consequent outcry by stockholders, and fall in the price of shares.

Combat these arguments.

4. A corporation formed to invest in certain classes of securities has made a serious loss on paper, by a fall in the price of some of its purchases, while it has earned enough on income to pay the usual dividend.

How should this be dealt with in the annual accounts?

5. A fraudulent cashier has embezzled some of the money passing through his hands. The books are kept on a double entry system, and he has access not only to the cash book, but also to the Journal and Ledger.

Point out eight distinct methods by which he may try to conceal his theft.

6. The Directors of a certain Company desire you to make a thorough audit of the accounts and state in your certificate "that the books are correct and all transactions have been properly recorded." Draft the form of certificate you would give.

7. State the items of income or expenditure which you would add to or take from the profits of a firm (as shown by the books) in preparing a certificate to be used in the prospectus of a Company which has been formed to take over the business.

8. A company organized June 30th, 1909, purchased the plant and business of a private firm as of January 1, 1909, i. e., the Company is to have the entire profit which may have been made from January 1 to June 30th. How would you apportion the year's profits in making up the accounts on December 31, 1909?

9. A newly organized Company permits its shareholders to pay in advance of certain calls made against their subscriptions, and allows them interest on such advances. How should interest so paid be treated in the accounts, or is it dependent upon subsequent profit?

10. Outline the method you would adopt in auditing the accounts of an Executor for the first year after the death of the testator.

CHICAGO, ILL., DECEMBER 21, 1910.

(Time, 3 hours.)

1. During the Audit you are making of the Accounts of a Corporation, you become aware of a claim against the Company which you think is likely to be enforced, but which the Directors do not recognize, and for which they will make no reserve. What would you do in the circumstances?

2. State shortly the duties of an Auditor of a Corporation.

3. A corporation is established for working a Patent of which ten years are expired, and for which a sum of money has been paid. How should the Company deal with this Asset, and what is the duty of the Auditor in respect of it?

4. How should an incorporated coal Company estimate the value of its Colliery in its Balance Sheet from time to time, first as a Freehold, secondly as a Leasehold?

5. Write out a short Audit Certificate dealing with a few of the points which sometimes arise in an Audit, and have to be specially dealt with by the Auditor in his Certificate.

6. In the case of an incorporated company making considerably more profit than usual in one year, owing to extensive purchases on a rising market, would you advise declaring a proportionately larger dividend, or what would be your recommendation? State your reasons.

7. In auditing the books of an importing and domestic wholesale wine and liquor dealer how would you assure yourself of the correctness of the inventory as to the bonded stock?

8. Beyond the mere detailed checking of purchase invoices to the ledger accounts with dealers, can you suggest any steps that might be taken which might be advisable with the view of the prevention of fraud?

9. A corporation invests its Reserves outside its business. On the audit of the accounts explain what steps you would take to verify the full receipt of the investment income and the safe custody of the trust funds?

10. Upon the audit of the partnership accounts of a manufacturing business the following conditions are revealed:

1. Sales toward the end of the period are unusually large.
2. A large deposit in bank is made on the closing fiscal date, which amount is credited to the bank two weeks later.
3. Machinery sold has been credited to merchandise sales.
4. A loan to the firm has been credited by mutual consent to the capital account of one of the partners.
5. Depreciation or discount from the value of a certain class of the inventory instead of being 30 per cent. as in prior years is shown as 10 per cent.

What would you deduce from these facts, and what would you feel called upon to do by way of extended inquiry or report in each of these instances?

CHICAGO, ILL., May 23, 1911.

(Time, 3 hours.)

1. A Chicago Corporation does Business in Brazil where its capital is invested, a Balance Sheet and Profit and Loss Account in Brazilian currency being sent over at the end of each year for amalgamation with the Chicago accounts. During the last year assume that a heavy fall in exchange took place, say from 54 cents per milreis to 36 cents. At what rate of exchange would you take the Brazilian assets for the purpose of the American Balance Sheet? Would you treat the Buildings, Machinery and Plant differently from the floating assets? Explain.

2. The $500.00 six per cent. bonds of a corporation are issued at $450.00 redeemable at par, by ten annual drawings. How would you treat these bonds in the Profit and Loss Account and Balance Sheet?

3. The following Profit and Loss Account is presented to you for audit by the Directors of a Company, who intimate their willingness to modify it in accordance with your suggestions. How would you re-draw it so as to show the exact profit for the period under audit?

To Rent	$ 1,672 00	By Interest on Investments	$ 4,660 00
" Inventory ..	15,325 00	" Inventory	17,806 00
" Bad Debts..	1,242 00	" Sales	83,236 00
" Interim Dividend.	5,000 00	" Balance from last year	2,627 00
" Depreciation	650 00	" Sundries	12 00
" Purchases ..	66,728 00	" Reserve Fund transferred	2,000 00
" Directors' Fees	2,000 00		
" Proposed Dividend .	4,000 00		
" Salaries	2,463 00		
" General Expense ..	3,791 00		
" Wages	7,402 00		
" Balance	68 00		
	$110,341 00		$110,341 00

4. In auditing the accounts of a bank, what evidence would you require produced in respect of the following assets: Loans, Bills discounted, Government Bonds; State also to what points you would direct your attention in the examination of each class of security.

5. What, in your opinion, is the best method of stating the Profit and Loss Account of a trading corporation so that it shall give the greatest possible desirable information to the Stockholders.

6. A corporation took an inventory of its stock on December 31, 1910, at which time it was overdrawn at its bank about $25,000.00. It kept its cash book open (as of December 31) for the greater part of January, during which time there was collected from Customers over $240,000.00 and $176,000.00 of this was applied to payment of liabilities accruing in January.

State the effect of these January transactions upon the financial showing and your attitude as auditor in certifying to the statement.

7. During the past fiscal year a concern under audit has not shown profit sufficient to justify paying a dividend. The manager in order to avoid showing a loss disregards the usual depreciation reserve charges for structures, plant, machinery, tools and implements.

What would be your view as auditor under the circumstances? Give reasons as a feature of your report.

8. In reviewing the schedules of open customers' accounts receivable for the purpose of setting up a reserve against irrecoverable amounts how would you proceed? Lay out your method and state what conditions would prompt inquiry as to a possible default in any one item.

How should a reserve for cash discounts on outstanding accounts receivable be computed?

9. In an audit if

(a) Cash is received but not properly accounted for—
(b) Cash is paid for goods that were never delivered—
(c) Cash is paid for wages that were not earned—

All with fraudulent intent, state concisely what means you would devise to prevent such happening in the future?

10. What is the Auditor's duty as to the inventory of a manufacturer's stock on hand—

1. As to the prices of raw material.
2. As to quantities of all items.
3. As to the extensions, additions and summaries.
4. As to the conditions of schedules and summations comparatively with those of the opening of the term.
5. As to obsolete, spoilt, uncatalogued or pattern goods.
6. As to its effect, in ratio, as a total on the gross profit.

CHICAGO, ILL., May 29, 1912

(Time, 3 hours.)

Answer ALL of the following EIGHT Questions:

1. Distinguish between a "Continuous" and "Completed" audit, and state what you understand by— (1) A Cash Audit; (2) A Financial or Balance Sheet Audit; and (3) A General Audit.

(5 Credits).

2. What general procedure would you follow in auditing the Receipts, or debit side of the Cash Book, of a Manufacturing Company where the transactions were not too numerous to render a complete detailed audit impracticable, and state what features of the audit would you omit where the transactions were too numerous to permit of a complete detailed audit.

(10 Credits).

3. (a) Do you consider it important to vouch or otherwise examine expenditures added to Plant, Property and Equipment Accounts; and if you do, state what your object would be, and the character of the examination you would make.

(b) State the points to be attended to in the audit of the Inventories of a Manufacturing Corporation.

(12½ Credits).

4. In the Balance Sheet of a concern under audit you find the Accounts Receivable and Payable to be as follows:

Accounts Receivable—	
Chicago (Head Office) Debtors	$95,650 00
St. Louis Branch account	2,425 00
Atlanta Branch account	4,730 00
New Orleans Branch account	1,725 00
Accounts Payable—	
Chicago (Head Office) Creditors	$41,500 00
New York Branch account	7,200 00
Montreal Branch account	3,752 00

What adjustments in the Balance Sheet, if any, would be necessary in order that an unqualified certificate might be given?

(7½ Credits).

5. Criticize the following Balance Sheet from both the Auditor's standpoint and that of the Company's Financial Position; assuming that the Bonded Indebtedness outstanding is $200,000.00.

A. B. COMPANY—BALANCE SHEET—DECEMBER 31, 1911.

Assets.

Real Estate, Buildings, Plant, Machinery, Equipment and other permanent Investments, including Goodwill		$ 1,000,000
Investments in Stocks and Bonds at Cost (Market Value $60,000)		100,000
Current Assets:		
Inventories—		
Raw Materials	$ 170,000	
Finished Stock at Selling Prices, less Discount 5 per cent	100,000	
Consignment (Selling Value)	50,000	
Supplies (Estimated)	200,000	
	$ 520,000	
Accounts and Bills Receivable, including Advances to Employes	125,000	

Stock in Treasury (Unissued)—			
Preferred	$150,000		
Common	137,225		
		$287,225	
Investments in Subsidiary Companies		225,500	
Cash and Miscellaneous Items		50,500	
			$ 1,208,225
			$ 2,308,225

Liabilities.

Capital Stock:			
Preferred Stock			$ 500,000
Common Stock			750,000
Bonds and Bankers' Loans			575,000
Current Liabilities:			
Accounts Payable		$ 15,225	
Other Indebtedness		231,000	
Accrued Items		2,000	
			248,225
Reserves:			
For Depreciation		$ 50,000	
Less—Renewal Expenditures written off		65,000	
Balance (Debit)		$ 15,000	
For Bad Debts		20,000	
Other Contingencies		5,000	
			10,000
Surplus (less Dividends Paid) including appreciation in Real Estate and other Capital Assets and Profit on Inventorying Raw Materials at Market Prices			225,000
			$ 2,308,225

(17½ Credits).

6. You find in the course of an annual examination as of December 31, the following:

(1) A credit balance in the Cash Account of..............$625 00

(2) In the Credit Ledger a debit balance for Cash charged to Davis & Co., on July 31 for...................... 375 00

(3) In the Debit Ledger a credit balance for Cash paid by Jones & Co. on December 31............................ 250 00

(4) A debit balance also in the Debit Ledger to Winslow & Co.:

July 1, Mdse...........$	50 00	Aug. 20, cash & disc'nt$	50 00
Aug. 3, Mdse..........	60 00	Oct. 3 " "	75 00
Sept. 15, Mdse.........	75 00	Dec. 1 " "	100 00
Oct. 10, Mdse..........	100 00	Dec. 31, Balance.......	60 00
	$ 285 00		$285 00

December 31, Balance $60.00.

What would be your views of each of these items?

(7½ Credits).

7. In auditing the accounts of a Corporation, you find that the Company has utilized its own Materials and Labor in the construction of extensive additions to its Plant, and that it has charged up such work at regular trade prices sufficient to yield to it a substantial Profit, which has been credited to Profit and Loss Account. Do you see any objection to this course? Explain fully the theory upon which your answer is based.

(10 Credits).

8. A Company insures the life of its Manager for its own benefit in the sum of $50,000.00, the annual premium being $1,250.00. Explain the method you would adopt of treating the disbursement at the annual accounting during the period the policy was in force.

(10 Credits).

Answer any TWO of the following FIVE QUESTIONS:

9. (a) In auditing the Disbursements of a Company, what books and documents would you call for; what would be your exact procedure, and to what points would you pay particular attention?

(b) Under what conditions would endorsed checks be regarded as ADEQUATE VOUCHERS?

(10 Credits).

10. How far is an Auditor entitled to probe into matters beyond the term which he is instructed to audit, and for what purpose should he do so?

(10 Credits).

11. In auditing the accounts of the following, what documents and records would you expect to see other than the regular double entry set of books?

(1) The Trust Estate of a deceased person?
(2) A Private Partnership.
(3) A new Company which had not been previously audited.
(4) A Charitable Institution.

(10 Credits).

12. In the course of audit of an Investment and Brokerage Corporation you find that the Diretcors have written up the value of some of the securities, which they contend is in harmony with current market values. The accounts show that the dividend proposed to be paid has not been earned unless the increment in value referred to is included as a Profit. What is your view of the proposed procedure of the Directors? If you concur with their proposed action, state your reasons; and if not, state the procedure, as Auditor, you would follow.

(10 Credits).

13. (a) In the accounts of a Wholesale Dry Goods Company, under what, if any, circumstances is it permissible to carry forward to a subsequent period the whole or any portion of the Expenditures for Salesmen's Salaries or Commissions and Traveling Expenses.

(b) In the accounts of a Lumber Company owning large tracts of standing Timber, how should the book value of "Stumpage" be disposed of? What do you understand by "Stumpage"?

(10 Credits).

THEORY OF ACCOUNTS

CHICAGO, NOVEMBER 2ND AND 3D, 1903.

(Time 3 Hours.)

1. Explain fully the method of transferring the accounts of a business kept under single entry to the double entry form.

2. State in the form of Journal entries the following transactions:

(a) Installment notes given on purchase of real estate, the face of said notes including interest charges up to maturity of the notes.

(b) Loss by fire of buildings, fixtures and merchandise; loss sustained by owner over and above the insurance carried and the amounts due and collected from the Insurance companies.

(c) Increase in valuation of real estate.

(d) Note of a customer returned with a protest charges from the bank where it had been left for collection.

3. Describe what is known as the Voucher System. Can a Voucher System be used to advantage in every business? If not, state certain conditions which would militate against it.

4. Define briefly the following term: (a) Capital. (b) Capital Stock. (c) Dividend Scrip. (d) Loan Capital. (e) Capital Expenditure. (f) Cash Assets. (g) Surplus. (h) Income Account.

Explain why Capital account represents a liability.

5. Are there any circumstances where a manufactory might inventory finished goods at selling price instead of at cost?

6. Trace the various operations in a well regulated office from the time an order is given for the purchase of material until such material is paid for, to protect the company from any possible loss in the transaction.

7. A corporation engaged in the manufacture of boilers owns the plant, upon which, however, there is a mortgage amounting approximately to one-half of the value of the build-

ings and real estate. On a part of the real estate owned the corporation has erected cottages, which it rents to certain of its employes. It is the custom to pay the employes each week, the pay day being on each Wednesday for the week ending the previous Saturday.

The corporation is in the habit of borrowing on its three months' notes from the local banks, whilst it purchases its material on credit, giving credit also in turn to its customers.

Draw up a form of Balance Sheet suitable to the above conditions.

8. A manufacturer obtains two patents at the same time as follows:

(a) He purchases outright a patent which has only ten more years to run for the sum of $5,000.00 which he terms his patent No. 1.

(b) He invents a contrivance and obtains a patent on same, the cost of which he estimates at $12,000.00 and which he styles his patent No. 2.

At the end of three years he expends the sum of $5,000.00 in defending his patent No. 2, the decision being given in his favor. One year later he spends $2,000.00 in a suit he brings against a competitor for infringement of his patent No. 1, which suit he also wins.

Without giving the actual figures, state how you would treat all the above transactions and arrive at a valuation of those two patents six years after he had obtained same, giving reasons therefor.

9. A merchant who has been in business for twenty years decides to put a valuation on the good will of his business and carry same as an asset on his ledger, the entry being to charge good will and credit surplus. Another merchant five years later buys the entire business including the good will, and after making a careful inventory finds that the actual net resources, exclusive of good will, amount to $5,000.00 less than the sum he paid for it.

Discuss the subject of good will in respect to the above cases, and state the correct manner of dealing with same.

10. Draw up a form of Cash Book for a corporation where a complete Voucher System is in operation and where the following conditions exist: Two Country and Two City ledgers are kept, also an operating ledger and a private ledger. It is a practice of a

majority of the customers to take advantage of the discounts given for cash in thirty days. It is also the custom of the corporation to deduct the discount they intend to take advantage of on goods purchased by them, by means of a column in their voucher journal. Their business is such that 20% of their sales are made for cash and 10% on C. O. Ds. The chief expenditures of the corporation are for woolen fabrics, notions, fuel, light and labor.

CHICAGO, MAY 4, 1904.

(Time 3 Hours.)

1. Describe the various uses to which a "Statement of Affairs" may be put. How does it differ from a Balance Sheet?

Define briefly the following terms and show how they should be treated in the preparation of a Statement of Affairs.

Unsecured Liabilities, Partially Secured Liabilities, Secured Liabilities, Contingent Liabilities, Preferential Libalilities.

2. Describe briefly the books of account and the principal impersonal accounts peculiar to any two of the following businesses:

1. Insurance Agent. 2. Brewery. 3. Building Loan Assn. 4. Club.

3. Explain the manner of arriving at the cost of a mechanism the parts of which are made in various departments and brought together in an assembling room, and also disucss the various headings of costs that you would expect to deal with and manner of arriving at same.

4. Explain a system of accounts which will enable a thorough check to be made of all currency disbursements. In large establishments, where the outlay on postage is considerable, what system would you advise to prevent loss by theft?

5. Define briefly the following terms: Sinking Fund, Contingent Fund, Reserve Fund, Redemption Fund, Depreciation Fund, Investment Fund. Which of these represent assets and which liabilities?

6. Discuss the different methods of dealing with, first, Repairs and, second, Replacements in connection with (a) A concern that writes off annually sufficient depreciation to cover the life of the machinery, and (b) A concern where no depreciation is written off,

and where it is claimed the machinery is kept as good as new.

Can you name some other reason why depreciation should be considered in respect to machinery other than that of wear and tear?

7. Name some reason why it is important to keep distinct the various items of cost in the construction of a building containing boilers, engines, shafting, and heating plant. In the erection of the building itself, why should the cost of the foundations be kept distinct from that of the balance of the building?

8. A concern owning a fleet of twenty vessels decides to carry its own insurance. How will this be dealt with on the books, and what entries would you make at the close of each fiscal year.

9. A buys a tract of land and sells a one-third interest in it to B, who agrees to pay for such interest in ten monthly installments at 6 per cent interest. The object of this investment is to make certain improvements on the land and to sell it on land contracts to various other parties, whom we will denominate as C, D and E. A and B are to share in the proportions of 2 to 1 in the cost of all improvements and expenses, taxes, and also in all moneys received on sales. The book-keeping of all transactions is to be carried on the books of account kept by A. Outline journal entries for the following transactions:

(1) Original investment made by A.
(2) Sale of one-third interest to B.
(3) Sales of land to C, D and E.
(4) Payment of taxes on land owned by A and B.
(5) Payment of installment by B to A.
(6) Payment of installments by C, D and E to A.
(7) Adjustment of final profit made on investment between A and B.

10. Describe and illustrate the rulings of at least three forms of ledgers adapted to customers' accounts and state the form you prefer for certain specific classes of accounts.

CHICAGO, NOVEMBER 16, 1904.

(Time 3 Hours.)

1. A company (incorporated) purchases the patent right of a new rotary grate and proceeds to place the same on the market, by

putting in the field some first class salesmen. Not only is it their intention to erect this device, but they purchase a plant consisting of foundry, machine shop, blacksmith shop, carpenter shop and assembly room, so that they will be in a position to manufacture all the parts. As they intend to sell only six sizes, they will be able to manufacture for stock, the parts thus put into stock being taken out on requisition for the purpose of filling contracts, or to replace old parts. Their terms will be one-half cash on delivery of all parts of the mechanism at the plant and the balance to be paid in one month after operation. Their agreement with their salesmen is based on a fixed salary, together with a commission of five per cent on the cash collected on contracts secured.

State what books of account they should keep and form of same; also describe all the General Ledger Accounts which you would deem it necessary that they should open and your reasons therefor, and draw up intelligent and comprehensive form of monthly statement to be rendered to the directors of the company.

2. What books do you recommend should be kept by executors, and what accounts should usually be opened in the Estate Ledger. Open accounts in an Estate Ledger with imaginary figures, as showing the condition of an estate where the testator had three kinds of investment.

3. Discuss the underlying principles which create a distinction between a statement of "Receipts and Disbursements" and "Revenue and Expenses," and which do you recommend for that purpose? State your reasons therefor.

4. Describe the correct manner of writing up, and keeping the following books:—Stock Certificate Book, Stockholder's Journal, Transfer Record, Stockholder's Ledger. Sketch a simple form of each of the above books.

5. A Company engaged in the manufacture and sale of products, desire a separation of their expenses under proper divisional or department heads. Illustrating, make your own selection of some manufacturing business, and prepare classification of accounts. What ledger headings would you use?

6. A Company engaged in the manufacturing business has instructed its accountant:

To show depreciation as an operating expense, and a credit to plant.

To set up a depreciation reserve, and create a depreciation cash fund.

Prepare the necessary journal entries to illustrate the idea of the Company, and discuss the question.

7. Prepare form of book for small business combining general ledger, general journal and general cash book in one binding to show transactions involving all three on each double page.

8. Explain the difference between gross and net floating debts, and what is generally meant by the term "floating debt" without the word "gross" or "net" preceding it.

9. Does conservative financiering permit of the capitalization of sinking funds under mortgages? Give reasons for answer.

10. What is the Treasury Stock of a corporation?

CHICAGO, MAY 10, 1905.

(Time 3 Hours.)

1. Give your views as to the better way of carrying property accounts in a manufacturing business; whether at cost or value. Give also the manner of treating depreciation under each method.

2. Explain difference between Auditor's reports and certificates, and the responsibility under each.

3. A Company whose stock is widely distributed and much dealt in, increases its capital stock of $500,000.00 by a stock dividend of 100 per cent. Some years subsequently an original stockholder brings suit for elimination from the capital stock of what he claims is "water." How can the stock issued as the dividend be eliminated from the $1,000,000.00 of stock outstanding?

4. A merchant furnishes his offices upon the hire purchase system, making equal monthly repayments which include principal and interest over a term of years.

Describe (without the use of figures) the correct method of recording the transaction in the merchant's book of account.

5. Describe briefly a good system for checking cash receipts in a large retail business, assuming that the business consists entirely of ready money sales, and that no credit is given.

6. From what source does the surplus of a Life Insurance Company arise, and state what insurance surplus actually is.

7. What are the important things to be shown by an executor in keeping the accounts of an estate in trust?

8. Prepare list of accounts to show the operations of some manufacturing business, giving the accounts the order you think proper for the presentation of statements, etc.

9. In an accounting system embodying a store-room, how should payments on account, covering an investment charge, be treated, and how should the final bill be treated?

10. The Head Office in New York on January 31st mails $5,000 to branch house in Chicago, telegraphing to that effect: how should this item be handled by branch house, so that their account with Head Office will agree in the trial balance taken as of January 31st.

CHICAGO, MAY 8, 1906.

(Time 3 Hours.)

1. Special Trustees are named in a Will to administer ten separate trusts, the terms of which are that the beneficiaries named in each trust shall receive the income on certain specific amounts on a 4% basis. The trustees after making an appraisal of various securities left by the decedent, turn over to each trust certain securities which on a 4% basis will make the amount specified in the will. They open *one* set of books to take care of all transactions affecting the ten trusts. Prepare the opening entry or entries on the journal, and describe the best form and rulings for keeping these trusts in one set of books.

2. Describe briefly a simple system of bookkeeping for either :—

(a) A proprietor or lessee of a theatre, who receives all profits accruing from the production of plays in such theatre after paying to the theatrical company a certain percentage of the gross receipts.

(b) A village, town or city in respect to keeping accurate records of special assessments.

3. Discuss the term "Income and Disbursements" as used on Annual Reports of Life Insurance companies furnished to various State insurance departments. What do Non-Ledger Liabilities and

Non-Ledger Assets include in such reports? What dangers, if any, may be anticipated by a method of bookkeeping where certain liabilities and assets are not carried on the books of account?

4. Describe the various methods which you have met with for writing off the premium on bonds purchased, pointing out their weaknesses or advantages. What is the most scientific method of dealing with premiums paid and upon what principle is it based?

5. Sketch forms of disbursement voucher and journal voucher. What method would you use to insure prompt return of vouchers sent out, and what is your method of filing all vouchers for ready reference?

6. Name the various methods of distributing "Factory Expense" or "Factory Burden," so as to apportion same to the cost of the article or articles manufactured, stating advantages of each in various kinds of business.

7. Explain how you would install for a large concern a system of bookkeeping arranged so that only the proprietor or officers of the company, together with their auditor (a certified public accountant) shall be cognizant of its financial condition and annual profits or losses.

8. A Land Company or Association is incorporated and purchases fifty acres of land which it sub-divides into blocks and lots. It then negotiates the sale of first mortgage bonds on the whole property, from the proceeds of which it makes the streets, lays the sewers and sidewalks and carries out other improvements, after which it places the lots on the market for sale. Wherein do these bonds differ from those secured by a plant? Describe the journal entries you would expect to make on the sale of one of these lots sold on a contract. The contract provides that when one-half of the purchase price had been paid, title will be given to the purchaser subject to a mortgage for the unpaid portion. What entries would you then make? How would you close the books at the close of each fiscal year?

9. Describe fully what procedure and methods you would adopt, if called upon to introduce and install an entirely new system of bookkeeping (not cost accounting) into the office of a large manufacturing concern.

10. Draw up a form of "Check Register" to be used in conjunction with a complete Voucher System, it being intended

that the Check Register shall take the place of the disbursement side of the Cash Book and shall also record the deposits and withdrawals in three different bank accounts. Discounts on goods purchased to be handled through the Voucher Journal.

CHICAGO, MAY 7, 1907.

(Time 3 Hours.)

1. A criticism often heard in respect to the "Voucher System" is that it entails too much red tape. Is this a just criticism, and if so under what circumstances? Discuss briefly the advantage of a Voucher system.

2. Draw up a form of Balance Sheet for a manufacturing Company owning its own plant, so as to also show at a glance the amount of circulating capital invested.

3. A construction company desires always to show upon its ledger the balance of its liability for contracts entered into and to be carried out by sub-contractors. There is however no actual liability until the sub-contractor has completed the whole or a part of his work. Payments by the construction company are to be made as the work progresses based upon the estimates of their engineer, less a 15 per cent reduction which later is allowed to accumulate until all the work under the contract has been satisfactorily completed. A voucher system is used by the construction company. Show the form of the journal entries necessary to bring the above transactions on the books of the construction company.

4. Name the advantages or disadvantages of the following two methods of bringing on to the books of a company the depreciation on its machinery:

(a) Crediting Machinery Account with ten per cent of the balance of the Account each year and charging Profit and Loss.

(b) Crediting a Reserve for machinery depreciation with ten per cent of the balance of the account each year and charging Profit and Loss.

How can you combine the best features of both the above methods?

5. A corporation leases certain premises for a period of ten years for a total rental of $450,000, to be paid in monthly installments of $3,750 each. It is however, later arranged that they shall pay $25,000

six months prior to actual commencement of the lease, for which advance they shall receive a credit applying on the total of $450,000, amounting to $30,000, the difference between the $30,000 and the amount actually paid of $25,000 representing compound interest on the advance. Under this plan they are to make 120 monthly payments of $3,500 each. Describe briefly how you would handle this transaction on the books of the corporation.

6. What is a "Perpetual Inventory?" Outline a plan by which not only the storekeeper may know readily the quantity of goods on hand of each and every kind, but which also enables the general office to have the same information on its own Stock Books.

7. Describe briefly how you would bring upon the books of a company a sinking fund created for the purpose of finally redeeming its bonded indebtedness. How would you treat the assets of this fund and investment of same? Finally, how would you show the condition of this fund in the Balance Sheet of the company?

8. Under what circumstances is it necessary to open a good-will account? What advantages are there in allowing it to remain open indefinitely on the books? If the assets taken over by a company are in excess of its capital stock, would you credit the excess to surplus? If not, why and to what account would you credit such excess?

9. A corporation located in Chicago that has been very lax in its accounting methods carries a freight account into which it charges all payments of whatever nature it makes to Railroad Companies, even payments made on the delivery of goods purchased F. O. B. Chicago. If called upon to reorganize their methods what suggestions and alterations would you make in respect to this subject? State your reasons.

10. What are "Hidden Reserves?" Express your opinion on their soundness or otherwise from the viewpoint of a shareholder, a director, and the auditor of a company respectively.

CHICAGO, ILL., DECEMBER 3, 1907.

(Time, 3 Hours.)

1. Outline a practical method for ascertaining the unearned discount on paper taken by a banking concern, when it is necessary to publish a statement showing the financial position. Why do

bankers generally omit to state a liability of this kind?

2. Define and differentiate your understanding of a trial balance; a balance sheet; statement of affairs; trading statement.

3. List the books of account and the principal impersonal accounts of the following:

(a) Stock Broker.
(b) Cold Storage.
(c) Trade Union Headquarters.

4. Outline a system for handling the accounts of a large retail jewelry store, explaning specially how you would arrange to guard against possible dishonesty of such employees as have access to valuable jewels and plate.

5. Give proper disposition of any balance appearing in a Profit and Loss account at the end of the fiscal year.

6. Outline your understanding of the most approved method of keeping a merchandise account and give titles of subdivisions you would suggest.

7. What meaning does the appearance of a sinking fund account in a balance sheet convey to you? Should a sinking fund represent specific investments, or may it be offset by equivalent ledger entries.

8. Define your understanding of

(a) Reserve Account.
(b) Reserve Fund.
(c) Income and Expenditures.
(d) Receipts and Disbursements
(e) Good Will.
(f) Income Bonds.

9. Why is it customary in stock brokers' or Board of Trade accounting to omit to charge interest on short sales made for their customers?

10. In the examination of the accounts of a stock broker who is a large borrower from different banks by means of promissory notes which he has issued from time to time, outline method for determining at any time particulars of the collateral placed with each note, changes in which occur frequently and the collateral itself being in some cases the individual property of the stock broker; in some cases entirely the property of his clients, and more generally such securities as have been bought on margins for the clients.

CHICAGO, ILL., MAY 4, 1908.

(Time, 3 Hours.)

1. State the most approved method to be adopted in writing off the cost of a lease extending over several years.

2. What is a consignment account, and how should it be stated in a balance sheet?

What is the general purpose of a distribution account?

3. Note different methods by which depreciation on patents, buildings and machinery may be provided for, and outline briefly your opinion as to the most desirable course to be adopted.

4. State your understanding of the difference between Gross Profit and Net Profit.

5. Wherein does a Trading Account differ from a Profit and Loss Account?

6. Give your understanding of the terms:

(a) Fixed Assets.
(b) Floating Assets.
(c) Wasting Assets.
(d) Floating Debt.

Under which heading would you place Cash, Bills Payable, Machinery, Buildings? Give other illustrations that may occur to you and reasons for your opinion in each case.

7. Define:

Cash Discount.
Trade Discount.
Returns and Allowances.

Give your definition of a correctly extended Inventory.

8. An irrigation company which in past years has issued two classes of preferred stock at 5 and 4 per cent respectively—also certain 6 per cent Debentures—is able to consolidate them into one general issue designated General Consolidated Preferred Stock at 4½ per cent.

Illustrate the method of placing the transaction on the books and state how you would adjust any nominal increase of stock incidental to the operation.

9. Wherein does a Balance Sheet usually differ from a Statement of affairs?

10. What do you consider the important features of a modern adequate system of acocunting for a manufacturing concern?

CHICAGO, ILL., NOVEMBER 20, 1908.

(Time, 3 Hours.)

1. State approved method of determining the liability of a company which sells its product principally on six months time and accepts the promissory notes of its customers in settlement. These notes are discounted at bank after being endorsed by the company and credited to Bills Receivable Account—consequently the Bills Receivable Account on the ledger indicates only a balance of undiscounted bills.

2. Admitting that in making up an inventory the most approved method is to value the goods at cost price, can you state any instance where it would be permissible to extend the values at the market price?

3. In making up a Profit and Loss Account at the close of a fiscal year, are you stating a fact or an opinion?

4. Give your understanding of the difference between a cash account (receipts and disbursements) for a certain period, and a revenue account covering the same period.

5. At the inception of a manufacturing enterprise, the real estate necessary for the use of the business has been donated by an association of men interested in the development of the town where the factory is erected. The only provisions is that the factory shall be operated actively for ten years and shall employ not less than 250 men. How would you enter such a donation of real estate upon the company's books?

6. Do you consider there is any distinction between "Reserve Fund," and "Reserve Account?" What are your reasons?

7. Supposing the materials for making up a Balance Sheet by double entry are wanting, how can the profits of a business between two given dates be arrived at? Give an example.

8. In preparing a Profit and Loss Account and Balance Sheet, how are Gains, Losses, Assets, Liabilities, Capital, Drawings, and Expenditures ascertained and dealt with?

9. If you were called in by the owners of a manufacturing company to lay down as perfect a system of book-keeping and accounts as was practicable, will you state what you would suggest in the way of general and subsidiary books, and what other require-

ments, if any, you would insist upon in order to facilitate the profitable working of the business?

10. State the aim and object of a cost sheet. Give an example from a business of your own choosing.

CHICAGO, ILL., MAY 3, 1909.

(Time, 3 Hours.)

1. Give your understanding of the "double account" system and state the kind of business undertakings to which it is usually applicable.

2. a. What is the purpose of a Profit and Loss Account and how is it made up?
   b. What does the balance of a Profit and Loss Account represent?
   c. How would you suggest that the final balance in such an account should be treated?

3. a. Give your understanding of the term "Depreciation" and state wherein it is or is not equivalent to "Wear and tear"?
   b. Explain different methods by which depreciation may be entered on the books of account and state which method you prefer, and give reasons for your answer.

4. After having conducted his business as a wholesale coal dealer for one year, and keeping only single entry accounts, the proprietor employs you to place his books in condition to be kept on a system of double entry. You find only a Cash Book, Day Book and Ledger. Detail the course you would adopt to produce a Profit and Loss account and a Balance Sheet and for providing double entry system required.

5. It has been stated "that Revenue expenditures do not create assets." What is your opinion? Also state the general distinction between Revenue expenditures and Capital expenditures.

6. State three purposes for which a Sinking Fund may exist, and give an example of each.

7. A manufacturing concern with ten branches in different cities wished to keep all the accounts at a central office and to know the separate results of the trading of each branch. Give a short description of how the Sales, Purchases and Cash transactions

might be dealt with, the goods being delivered direct to customers from each branch, materials purchased at each and occasional remittances from customers there received.

8. Give four methods of apportioning over-head expenses in Factory Cost, and state which, in your opinion is the best, and why?

9. A manufacturer finds that during three months his goods have cost per cent, on the sale price:

Raw Material	30
Wages	20
Rent, etc.	05
Fuel	10
General Expenses	15
	80

What should he add to his selling price to obtain the same profit if the following advances take place?

Coal	50 per cent. advance
Material	5 per cent. advance
Wages	2½ per cent. advance

10. Give (a) four examples of assets that are Fixed Assets in connection with some particular class of business, but generally Floating Assets;

(b) Four examples of assets that are Floating Assets in connection with some particular class of business, but generally Fixed Assets.

CHICAGO, ILL., MAY 2, 1910.

(Time, 3 Hours.)

1. A Chicago Trading Corporation does business in Peru, where its capital is invested, a Balance Sheet and Profit and Loss Account in Peruvian currency being sent over at the end of each year for amalgamation with the Chicago accounts. During a given year a heavy fall in exchange takes place. How would you value the Peruvian assets for the purpose of the Chicago Balance Sheet? Would you treat the works and plant differently from the floating assets? If so, why?

2. How would you deal in farm bookkeeping, with growing crops, and stock in process of increase?

3. If A. B., a wholesale stationer, after taking stock found it necessary to suspend payment, and requested you to prepare a statement of his affairs to be laid before his creditors, what would such a statement comprise? Explain in what respect, if any, the summary of assets and liabilities would differ from the ordinary Balance Sheet of his business.

4. Give a form of Cash Book adapted to save the labor of posting, and suitable for a charitable institution whose income is chiefly derived from subscriptions, donations and investments. Write specimen entries not exceeding eight on each side.

5. Describe shortly how you would make up the Trading Account of a business where there were no regular books of account, and in respect of which you were able to obtain only the Bank Book, Cheque Book Stubs, Petty Cash Book, unpaid accounts, a Memo Ledger of Customers and a rough Journal.

6. An old established and highly prosperous business is transferred in 1900 to a Company which pays the proprietors $300,000 for all fixed assets and $50,000 for good will. In 1909 the Company has accumulated $125,000 of undivided profits and the Directors decide to charge off the entire item of good will. What effect will this have upon the accounts?

7. What is your understanding of the term "Reserve for Bad and Doubtful Debts," and how would you (a) establish it upon the ledger; (b) state it upon the Balance Sheet.

8. It has been stated "that the right to declare a dividend depends upon the state of a company's finances at the time when the dividend is declared." Give your opinion brefly as to conditions under which a Company may borrow money for the purpose of paying a dividend.

9. Outline a method by which an approximate inventory may be determined in the case say of a merchant, whose stock of merchandise has been destroyed by fire, but the invoices, sales books and books of account have been saved.

10. What items of expenditure should be treated as assets at the close of a fiscal period?

CHICAGO, ILL., DECEMBER 21, 1910.

(Time, 3 hours.)

1. Irrespectively of the independent Audit by a Certified Public Accountant, how would you endeavor to organize the financial arrangements and the system of Bookkeeping of a large Firm or Corporation, so that there might be the best internal check possible?

2. Give an example of that portion of the Balance Sheet of a Corporation, which deals with the Share and Debenture Capital Account. State and set out the same in the proper columns, assuming the following to be the position of the Company's Share and Debenture Capital:

Share Capital, Authorized	$100,000 00
Share Capital, Issued or Subscribed	80,000 00
Share Capital, Called up	60,000 00
Calls paid in advance	5,000 00
Calls in arrear	1,000 00
Debenture Capital, Authorized	50,000 00
Debenture Capital, Issued or Subscribed	40,000 00
Debenture Capital, Paid up	35,000 00

3. An Executor, on entering upon his duties, having asked you to give him instructions in writing how he should deal with and keep the Accounts of his trust, specify your instructions in the form of a letter.

4. A Company, having $500,000.00 of Debentures, bearing 5 per cent. interest, which have been in existence for some years, and which are repayable February 1st, 1907, arranges to provide the necessary Capital by the issue, at par, of $500,000.00 4 per cent. permanent Debenture Stock, the interest on which runs from January 1st, 1907; the Accounts of the Company are made up to June 30th, 1907. What, in your opinion, is the proper amount of Debenture Interest to be charged against the profits of the half year? Give the reasons upon which your opinion is based.

5. A Firm is in the habit of supplying goods on the principle of sale or return, taking payments by installments covering principal and interest, the purchaser having the option to return the goods at any time, forfeiting the installments paid. How would you

recommend that such conditional sales should be entered in the Books of the selling firm, and how should the outstanding amounts be from time to time valued?

6. The calculation of the percentage of profits is sometimes based upon cost and sometimes upon selling price. Which do you regard as the more correct method? and how, if required, would you readily arrive at the cost of goods sold? Give your reason.

7. In a large manufacturing concern purchases of material and supplies pass through the storekeeper. What system of bookkeeping and check would you advise to safeguard and control the distribution of both? Fully explain the same.

8. In closing the books of a company at the fiscal period, what steps would you take to insure that all liabilities to date had been included?

9. In taking off a trial balance, a bookkeeper finds that his debit footings exceed the credit by $131.56, which he carries to a suspense account. Later, he discovers that a purchase amounting to $417.50 has been debited to a creditor as $192.94; that $312.50 for depreciation of furniture has not been posted to depreciation account; that $500 withdrawn by the principal has been charged against wages account; that a discount of $76.13 allowed to a customer has been credited to him as $71.13, and that the total of sales returned was footed $5.00 short. Give detailed entries showing how you would remedy these errors, and starting with the original difference prepare a supplemental trial balance showing whether the books balance or not.

10. A corporation's profits for the year ended December 31, 1908, amount to $451,000. The by-laws require a reserve equal to 10 per cent. of any dividend paid to the common stockholders, and any surplus remaining after such dividend has been paid is also to be applied to the reserve, until such reserve account amounts to $250,000. The reserve at December 31, 1907, was $156,020. The capital is $2,000,000—one-half cumulative preference 6 per cent. and one-half common, all fully paid. On December 31, 1908, the preferred dividend is two and one-half years in arrear. On December 31, 1907, profit and loss account was in debit $202,000. Set our your treatment of the profit for 1908, and comment concisely on the position.

CHICAGO, ILL., MAY 23, 1911.

(Time, 3 hours.)

1. "A" died, leaving an estate consisting of:

Real Estate, valued at	$ 30,000 00
Share in Partnership, estimated at	175,000 00
Share of Stock	75,000 00
Household Furniture	19,500 00
Cash at Bankers	4,000 00

The will provided for an annuity of $1,000.00 payable to Testator's wife out of income, the remainder of the income being divisible among his six children equally so long as they live and until the youngest attains the age of 21 years.

What books and accounts would you open for the executors, and what information would you require to enable you to write them up and adjust the capital and income?

2. The Bristol Manufacturing Company issued and sold on the 1st of January, 1911, to A and B, 100 (50 to each at the same price) First Mortgage Bonds of $500.0 each, bearing interest at 4 per cent. per annum, and received $48,000.00 in cash.

What records of the transactions should be made, and in what books?

3. The profits of a corporation with a paid up capital of $5,000,000.00 amount to $337,193.08 for a given year, without allowing for its mortgage interest. At the end of the previous financial year there was left a balance of undivided profits of $27,806.92.

Its 4 per cent. mortgages are $500,000.00 and its 6 per cent. mortgages are $750,000.00. How much must be taken from the previous year's Surplus balance to pay the Stockholders a dividend of 6 per cent.

4. A charitable institution receives annual subscriptions and donations and employs a canvasser who has to induce persons to become subscribers and who is also authorized to receive subscriptions and donations.

State what you consider the best system of bookkeeping to guard against peculation, and what regulations you would lay down for the conduct of the financial affairs of the institution.

5. Specify some of the closing entries to be made, after the agreement of the Trial Balance in the books of an architect's business in which two partners are interested.

6. Make out a Foreign Bill of Exchange in duplicate. Why is the bill duplicated? What happens when the 'First' is presented to the drawee for acceptance and it is the 'Second' which is endorsed.

7. A manufacturing concern finds that in the past fiscal year the prime or manufacturing profit was thirty-four per cent. of the profit on sales. On June 30 of the current period the Directors want an approximate inventory without count or schedule and call upon you to do so. Illustrate your plan of procedure—(150-200 words.)

8. In summarizing the nominal accounts of a manufacturing concern to determine the results of operations for a period (a) what would be the order and character of the three closing accounts? (b) What nature of accounts form the elements of each? (c) Give your reasons.

9. What form of ledger would be appropriate to an enterprise in which the accounts bear interest at 5 per cent. per annum on current transactions; illustrate a ledger account in detail, showing the method of computing the interest and balancing it into principal semi-annually.

10. What is an accommodation bill? Describe the three usual methods of raising money on such paper.

CHICAGO, ILL., MAY 28, 1912.

(Time, 3 Hours.)

Answer ALL of the following SIX questions.

1. (a) What do the terms "Capital Assets," "Current Assets" and "Quick Assets," signify to you? Under what group would you classify "Floating Cooperage," in the accounts of a Brewery; "Horses and Stable Equipment" in the accounts of an Express Company; and "Live Stock" in the accounts of a Ranch or Farm.

(b) Distinguish between "Funded" and "Floating Indebtedness," and state under what category you would place "Deferred Purchase Money Obligations." State what you understand by "Deferred Purchase Money Obligations," giving an illustration.

2. A Commercial Concern in Chicago doing an extensive inter-state and foreign business, maintains branch offices at London,

Paris and Turin, the two latter being subordinate to the London office. The European Manager in London is required to approve and forward to Chicago each month the several district reports of Gross Sales, Receipts and Disbursements made up in the currencies of the respective countries. In order that the progressive monthly results may be readily grasped by the Chicago officials, how should these reports be recorded on the Chicago books? Explain the method you would recommend so that the entries would be susceptible of proof at any time; and what treatment would you advise for the fluctuations of exchange respectively as to sterling, francs and lire?

3. (a) Explain the theory of a Depreciation Reserve, and for what purposes should such an account be used? As Auditor of a Manufacturing concern where such an Account was kept, what would be your duties in respect thereto; and what, if any, charges would you permit to be made to the Account?

(b) What is a "Sinking Fund," and how is it created? When applied to the redemption of "Bonded Indebtedness," what provisions pertaining thereto do you usually find in a Mortgage or Trust Deed? Upon what different basis may the amount of annual installments for a Bond Sinking Fund be determined; explain fully.

4. John Barton leases a coal mine from Thos. Sutton upon the following terms: At a Royalty of 25c a ton as rental, with an annual minimum of $500.00—the privilege being given to recover "Dead" or "Unearned" minimum rent within a period of 20 years.

Draft the Journal Entries relative to the following output for 5 years:

1st Year 1,000 Tons—2nd year 2,500 tons
3rd " 4,500 " —4th year 1,800 tons (Strike)
5th " 3,800 "

5. (a) In the Balance Sheet of—
(1) A Steam Railroad Company; and
(2) A Manufacturing Concern
how should Commissions paid and Discounts allowed on Bonds sold, be treated?

(b) In the Balance Sheet of a Corporation, how should the following items be stated?
(a) Reserve against Estimated Loss on Accounts Receivable
(b) Reserve for Contingencies
(c) 5% Mortgage Bonds—

Authorized		$1,000,000.00
Certified and Issued by the Trustees, $750,000.00, viz.:		
(1) In hands of the Public	$400,000.00	
(2) Pledged as Collateral to secure the Company's Notes Payable	100,000.00	
(3) In the custody of the Treasurer	250,000.00	
	$750,000.00	

6. A firm of Jobbers—Shea, Kargeau & Co.—to provide against financial strain in the event of the death of one of the Partners, takes out a joint Life Insurance Policy for $15,000.00, the annual premium ($750.00) being charged as a feature of the Profit and Loss Account. Eight years thereafter the Junior Partner died; assuming that they are equal partners, you are called in to adjust the accounts upon receipt of the Insurance money. Explain the method you would follow.

Answer any FOUR of the following SIX Questions:

7. In Cost Accounting, what is meant by "Burden", "Overhead", "On Cost"? State the various methods with which you are familiar for the absorption of the General Factory Expenses in the cost of the Finished Product, and state the advantages and disadvantages of each method.

8. A. T. Stewart & Co. of New York owe Robillard et Cie of Paris, France, 2,515 francs. R. et Cie's account on A. T. Stewart & Co.,s ledger shows a credit balance of $485.52 as the debt was recorded at the rate of exchange of 5.18 francs to the $1.00. To pay the account A. T. Stewart & Co. gave a Bill of Exchange on Paris for the amount at the rate of 5.19⅛ francs to the $1.00. Sketch A. T. Stewart & Co.'s Ledger Account with R. et Cie after being posted and balanced off, and draw the Bill of Exchange.

9. State concisely the essential difference between the accounts of a Charitable Institution kept on a so-called "Cash basis" and on

an "Income and Expenditure" basis. Would the same principles apply as regards the accounts of a City or Municipality?

10. A. B. & Co. of Chicago, Ill., supplies goods to D. D. & Co. of Bloomington, Ill., at various dates, and the latter offers a four months' note with interest at 5% added to note from average date; the invoices are as follows:

Aug.	14,	1911	$2,700 00
Sept.	5,	"	3,950 00
Oct.	17,	"	1,290 00
Nov.	12,	"	780 00

Draw up the note, dating it at the average date.

11. Compare the advantages and disadvantages of a "Voucher Record System" as opposed to an Accounts Payable or Creditor's Ledger system with Purchase Journal, and state what you would recommend.

12. An industrial corporation has an issue of bonds falling due in fifteen years, and has accumulated a fund annually from Profits with which to pay off the Bonds at maturity. The Fund is invested in interest-bearing securities. How will the payment of the Bonds affect the figures and items in the Balance Sheet?

COMMERCIAL LAW

CHICAGO, NOVEMBER 2D AND 3D, 1903.

(Time 3 Hours.)

1. Name the necessary condition upon which the validity of a contract depends. Discuss briefly the relative merits of an oral as compared with a written contract.

2. Define partnership. What is a limited, or special, partnership? State in general the provisions of the Illinois statutes relating thereto.

3. In respect to Illinois Corporation Law: (a) How many incorporators are required? If any exceptions, name them. (b) What is the limit of time for which incorporations can be had? (c) How soon after incorporation must a corporation organize and begin business?

4. State the difference between a sale and a consignment. What is an "Account Sales"? What kind of action can a consignor maintain against a consignee who converts to his own use the proceeds of the sale of a consignor's goods?

5. Under what circumstances can a business house, having sold a bill of merchandise, stop the goods in transit to the buyer? How long does the seller of a bill of goods retain a lien on such goods?

6. Can a corporation legally purchase or otherwise become possessed of its own capital stock? Do the admissions of a stockholder or a director legally bind a corporation? Under what authority can a corporation issue a mortgage upon its own property?

7. When are common carriers not financially responsible for the goods entrusted to their care for purposes of transportation?

8. Define the following legal terms: (a) Accommodation Paper. (b) Beneficiary. (c) Bill of Exchange. (d) Choses in Action. (e) Demurrage. (f) Escrow. (g) Collateral. (h) Vendor.

9. Define the terms:—Trustee, Receiver, Executor, Administrator, Conservator and Guardian, stating in what respect they differ from each other.

10. On whom does loss legally rest in case of a forged certificate of the Capital Stock of a corporation?

11. What class of property are the engine and cars of a railroad corporation? Are they subject to execution and sale for debt?

CHICAGO, MAY 2, 1904.

(Time 3 Hours.)

1. What is the time for the payment of a note falling due on (a) Saturday, (b) Sunday, (c) Monday, when Monday is a legal holiday?

If the date of a note should be changed by the holder with the consent of the payee, would its validity be affected thereby? Explain fully.

2. What rights does the holder of non-negotiable paper have against the maker or acceptor as compared with the holder of negotiable paper?

3. Draw up a form of "Power of Attorney", conferring authority on an agent to execute a deed, mortgage or any other instrument that has to be recorded.

4. In what respects are partners trustees for each other, and in what respects are they agents for each other?

Is an innocent partner liable for the fraud of his co-partner? If so, on what grounds?

5. Will the assignment of all the rights, etc., of a partner make the assignee a partner?

6. Explain the term Stoppage in Transit. What are its necessary conditions for enforcement?

7. Define Bailment and give different classifications of Bailments, with illustrations. What constitutes "Slight Negligence."

8. Has an Insurance Company an insurable interest in the property covered by its policy, and has the insured any interest in the re-insurance policy?

9. What is a Joint Stock Company? In what ways can it be compared with (a) a partnership, (b) an incorporated company?

10. Define Treasury Stock. What effect has the term "fully paid and non-assessable", written upon a stock certificate, in respect to the liability of stockholders to creditors of the company? Explain fully.

CHICAGO, NOVEMBER 14, 1904.

(Time 3 Hours.)

1. A promissory note which appears originally to have read;

"Chicago, Ill., May 1st, 1904.

Six months after date I promise to pay to the order of Richard Roe, One Thousand Dollars.

For value received, payable at Chicago, Ill. John Doe."

is presented for payment at maturity, and the word "payable" is stricken out. Can the maker, endorser or guarantor escape liability?

If the words "six months" appear to be stricken out, and the words "one year" inserted, could the maker, endorser or guarantor escape liability?

2. Define the following:

(a) Contract.

(b) Consideration.

(c) Promissory note. State essentials of a promissory note.

(d) Bill of sale.

(e) Chattel mortgage.

3. Is it necessary or desirable in Illinois to protest an Illinois note in order to hold the endorser?

4. How is the liability of an endorser of a promissory note payable in money determined in Illinois?

Is there any different rule as to a promissory note not payable in money, and if so, what?

State in general the rights and liabilities under Illinois law of an endorser of a promissory note payable in money.

5. Mention a proceeding for the collection of a judgment when it cannot be collected by execution.

What is necessary to entitle the judgment creditor to institute such a proceeding?

6. An Illinois corporation is duly organized, except that its certificate of incorporation is not filed in the Recorder's office. Is it liable as a corporation for debts incurred in the regular

course of its business. Is any one else liable for such debts? If so, who?

7. An Illinois note for $1,000.00 dated February 1st, 1903, is payable one month after date, with interest at the rate of 6 per cent per annum. It is not paid at maturity. What is the first day on which suit can be brought?

How much is due upon the note on that day? Explain why.

8. A man having charge of his employer's bank account, forges a check for $1,000.00, and obtains the money thereon March 1st. He speculates and makes $500.00 which he deposits in his employer's account on April 1st. How much does he owe his employer on May 1st? Explain why.

9. John Smith carries a deposit account at the 16th National Bank, Chicago, Ill. He gives his ninety-day note for $1,000.00 to William Jones, which note, by its terms, is payable "at the 16th National Bank, Chicago, Illinois." At the maturity of the note, William Jones presents the same at the 16th National Bank, Chicago, Ill. At the time of such presentation, John Smith has a balance of $5,000.00 to the credit of his deposit account at said bank. Is the bank bound to pay the said note when so presented?

10. A person holds an estate in trust, and is required by the terms of the trust to pay the income of the estate annually for five years to A, the income annually for the succeeding five years to B, and the income annually for the succeeding five years to C. At the end of fifteen years the principal of the trust estate is payable to D. At the beginning of the trust the trustee makes a ten year loan of $50,000.00 at 6 per cent to X, and receives a commission in the transaction amounting to 2 per cent. To whom does this commission belong as between the trustees, A, B, C, and D?

CHICAGO, MAY 8, 1905.

(Time 3 Hours.)

1. Is it necessary to copyright trade marks and trade brands to protect owner against their use by competitors?

2. In the case of merchandise left at the shop for repairs, is the owner of the shop responsible for the value of the merchandise in case of loss by fire?

3. A sale of goods is made deliverable at the factory of a purchaser, and a draft drawn for cost with bill of lading made out in the name of the shipper attached, and such bill of lading endorsed in blank. The draft is paid, and subsequently it is learned that the goods were lost in transit. As between consignee and consignor, on whom does the loss of the goods fall?

4. Is it unlawful on the part of an employer to refuse to employ a man owing to his membership in a Union? Is it unlawful for a number of employers to make an agreement not to employ Union men?

5. A salesman is authorized to sell goods and collect accounts, and take checks to the order of his employer. If the salesman endorses a check for his employer, and the same is cashed by the bank, can the bank be compelled to repay the amount of the check to the employer? Explain fully.

6. Is a railroad company liable for a trunk or its contents when lost, or for breakage, if the contents of the trunk are taken as baggage and a check given therefor, while the actual contents are samples? Give reasons for answer.

7. Henry Jones makes a promissory note payable to the order of John Smith. It bears the following endorsement:—

John Doe
Richard Roe
John Smith

It has been delivered in this form before maturity by John Smith to a *bona fide* holder for value.

If it be an Illinois note, what are the liabilities of the endorser respectively to the holder.

Would an extension by the holder of the time of payment without the consent of the endorsers release all or any of them? If part of them, whom?

Is there any difference in different states as to the liabilties of irregular endorsers, i. e., endorsers whose names are on the note for some purpose other than transferring title?

8. A contracts to deliver to B, f. o. b. cars at San Francisco, certain iron castings. A delivers the castings to a railroad at its freight depot in Chicago. The character of the castings is apparent. The freight agent charges the proper published rate of $1.50, and A prepays the freight at this rate. The connecting railroad at San

Francisco on receipt of the castings maintains that the rate should be $1.90 and declines to deliver them without payment of the excess.

Has A fulfilled his contract.

If B pays the excess freight, what is he entitled to recover, and from whom?

Explain the necessary course in which to collect from the party ultimately liable?

If B refuses to pay the excess freight, and demands the castings and suffers actual damage in double the amount of the excess freight by reason of the railroad's refusal to deliver, what, in that event, can B recover, and from whom?

9. A promissory note reads as follows:

On May 1, 1905, I promise to pay to the order of myself, the sum of One Thousand Dollars, payable at the American Bank, with interest after maturity at 6 per cent per annum, for value received.

John Smith.

The note was endorsed in blank, John Smith.

Upon May 1st, John Smith appeared at the American Bank and offered to pay the note, but it was not there. He did not know who held it. Before the end of the day, he paid the American Bank the amount due to be paid to the holder as soon as he should present the note. The holder of the note failed to present it for payment until June 1st. On May 15th the American Bank became insolvent.

Could the holder recover from John Smith the amount due on the note, and if so, how much?

Why is it a common practice to have a note made to the maker's order and endorsed by him?

10. A shipper delivers goods at a freight depot for shipment, and receives a printed bill of lading containing a number of stipulations, but does not read it. He subsequently claims that he is not bound by certain stipulations in the bill of lading, first, because he did not read them, and, second, because they are unreasonable.

State the principles on which the shipper's rights are to be determined.

CHICAGO, MAY 8, 1906.

(Time 3 Hours.)

1. What are the advantages of incorporating a business? For what purpose may corporations be formed in Illinois? Name exceptions, if any.

2. Must each share be paid for in full by each subscriber to an Illinois Corporation before a certificate of stock may be issued to him?

May capital stock be paid for in property?

3. Stock Certificate issued to the original subscriber bearing the printed words "Fully paid and non-assessable," when in fact it was only partly paid for; subsequently it is sold and assigned to a purchaser without notice of the fact that it is not paid for in full. What remedy has a creditor of the corporation against the original subscriber and against the transferee?

4. Has the holder of a single share of stock the right to inspection of the books? If so, when, where and under what circumstances?

5. How should an agent execute negotiable paper in order that it might be binding on the principal and not upon himself?

6. When is an acceptance by mail or telegraph of an offer complete? When can an offer be withdrawn without liability?

7. When goods are ordered of a New York Corporation by a Chicago business house, whose agent is the carrier? Who can bring suit if the goods are lost in transit?

8. The date of maturity of a note is changed by the payee with the consent of the drawer. How does it affect the surety on the note, if the alteration makes the note due at an earlier date? At a later date?

9. A shoemaker sells out business to a corporation and agrees not to go in business in the State of Illinois for a period of 25 years. Ten years later he establishes himself again in business in Illinois. Has the corporation a right to recover in an action for damages for breach of his contract?

10. What is the liability of a bank in reference to negotiable paper left with it for collection, which it is necessary to send to another city for collection?

CHICAGO, MAY 7, 1907.

(Time 3 Hours.)

1. In stating accounts between partners, is a partner who has advanced more than his share of capital entitled to interest on such excess? Or is one who has overdrawn properly debited with interest on such over-drafts? It is to be assumed in each case that this matter is not covered by express agreement.

2. Suppose a partner engaged in a certain line of business, engages, during the partnership, in ventures of his own account in the same line of business. Can he be compelled to account to the firm for profits thus realized? And what would be the rule if the business he thus engaged in were outside the scope of the partnership agreement?

3. What are the rights of a check-holder, in Illinois as against the Bank on which the check is drawn, provided the drawer has funds there sufficient to meet the check? Does any different rule obtain in some other states and if so what is it?

4. What is essential under the law of Illinois in order to fix the liability of an indorser of a promissory note?

5. What are "days of grace" as understood in the law relating to Commercial paper?

6. What do you understand a Corporation is? What are some of its essential or usual powers and what reason suggests the advantage of carrying on business by means of incorporated companies instead of by individuals or partnerships?

7. What is corporate stock and how does it differ from bonds issued by a corporation?

8. What is the difference between preferred and common stock? Can you state how and to what extent preference or advantage is given in respect of preferred stock by such provisions as are usually or frequently made as to it?

9. By whom are the directors of a corporation usually selected and by whom are its officers generally chosen?

10. State generally who is entitled to file a bill to compel the officers and directors of a corporation to account for any breach of duty or breach of trust?

CHICAGO, ILL., December 4, 1907.

(Time, 3 Hours.)

1. What is a contract? If a man give his note for One Thousand Dollars to a friend simply as a gift, can the payee of the note collect it at maturity? Give reasons for your answer.

2. Where a contract is in writing is it admissible for one of the parties to it to vary it by proving that at the time it was entered into, such was their oral agreement? Give reasons for this.

3. Suppose that a man owing a debt of $20 should go to his creditor and offer him a check for that amount, which the creditor should refuse, saying he preferred currency; that thereupon the debtor should say, "Well, I only have $10 with me; I will pay you that and bring the other $10 as soon as I can get it from my office," and thereupon the creditor should give the debtor a receipt for $20. If the debtor failed to pay the balance of $10, would this receipt prevent the creditor from recovering it? Give reasons for your answer whatever it is.

4. What are the essential features of a partnership? Are persons ever treated in law as partners of a firm as to third persons dealing with the firm when, in fact, there is no agreement of partnership between them and other members of the firm, under any circumstances, and if so, what circumstances in a general way?

5. Suppose that a party living in Chicago receives a check from his debtor and deposits it at his bank during the usual hours of business the next day after it is received, but before this check reaches the bank on which it is drawn, that bank closes its doors and suspends payment; on whom must the loss, if any, fall—the drawer of the check or the party to whom he sent it? State also any circumstances under which your answer would be different from what it is to the foregoing question, where a bank failed before a check drawn on it was paid.

6. What do you understand by the term "Legal Tender," and having defined this, state what falls within that designation in this country?

7. What are the two great objects of a bankrupt act, generally speaking? What is a preferential payment or transfer; how may it be avoided and what is the final proceeding, so far as the bankrupt is concerned, if he has complied with the terms of the act?

8. In the law relating to corporations the term "ultra vires" is frequently employed. Tell in a general way what you understand by this and how acts that are *ultra vires* are regarded in the law?

9. Has the president or other managing officer of a corporation, by virtue of his office, any right to employ its funds for his own purposes?

10. State, if you know, whether as a general rule under the law of Illinois, one corporation may own and vote stock in another corporation, both of these corporations being organized under the laws of the State of Illinois, and what would be your opinion if one of these companies, namely, the company in which the stock in question was held, were an Illinois corporation, and the other company, namely, the company seeking to vote the stock, were a corporation organized under the laws of another state?

CHICAGO, ILL., MAY 6, 1908.

(Time, 3 Hours.)

1. How does the liability of a Guarantor differ from that of an endorser of a promissory note in Illinois?

2. A corporation called the Western Trading Company was incorporated under the laws of the state of Illinois. A certificate of complete organization was issued by the Secretary of State and everything necessary to constitute this a *de jure* corporation was done except to record the certificate in the office of the Recorder of Deeds of Cook County, the principal office of the Company being in Chicago. After the company was thus organized, its president ordered some bonds engraved by the American Bank Note Company, and the bonds not being paid for on delivery, the work thus ordered having been charged to the Western Trading Company, on the books of the plaintiff company and bills rendered accordingly, the latter company sued the president of the Western Trading Company for the Contract price of the work. The court gave judgment for the plaintiff on the ground that the Western Trading Company, not having filed in the office of the Recorder copy of its Articles of incorporation, as required by law, was incapable of contracting and would not be held liable on this contract. Give your opinion on this case.

3. Is the following instrument a negotiable promissory note?

Chicago, April 8, 1908.

Thirty days after William H. Taft is elected President of the United States, I promise to pay to the order of William J. Bryan Five Hundred Dollars at the First National Bank of Chicago for value received. (Signed) Joseph G. Cannon.

Give reasons for your answer.

Can the payee collect this amount thirty days after the stipulated contingency occurs? What is that contingency—the casting of the popular vote, the action of the electors in the several states, or the action of Congress in opening and canvassing the returns? Explain why you answer as you do.

4. A firm, composed of three members, was about to dissolve partnership and go out of business. It occupied, and had for many years, premises which the firm leased and did not own. One of the members, without the knowledge of his co-partners, obtained a lease of these premises some time prior to the dissolution of the firm, but when it was contemplated, the new lease to begin when the old one expired, and after the dissolution, sold the lease for a large sum of money. Is he under any obligation to account to his partners for the profits thus realized as if the same were partnership property? Give reasons for your answer.

5. What is understood by the term "debentures?" How do they differ from other securities or stock? If there is any difference in England and this country in the practice of issuing debentures and the usual meaning of the term, state it.

6. What is a bill of exchange? Is an oral acceptance of such a bill valid in Illinois or must it be in writing?

7. Must the stock of an Illinois corporation be paid in whole or in part before certificate of complete organization issues, and, if so, in what may such payment be made?

8. What is a surety? Can he exonerate himself from his contract by showing that no consideration therefor moved to him; that he received no benefit from its execution and no part of the consideration upon which it was executed? If so, why? If not, why? Explain clearly.

9. Is a person, who is a member of two firms, under liability to account to the other members of either firm for profits which he realized from his efforts or investment in the other? If not, why

not? If there are circumstances in which he would or might be so liable, state them.

10. Where one party is entitled to an accounting from another, what is the usual and proper proceeding in Illinois and in the Federal Courts for securing an account?

CHICAGO, ILL., NOVEMBER 21, 1908.

(Time, 3 Hours.)

1. What is an agent? Name some familiar classes of agents and indicate in a general way the nature of their agency.

2. August 1st, 1893, there was a great panic on the Chicago Board of Trade and a very weak and demoralized market in pork. A firm doing business on the Board was on that day carrying a large amount of pork for a customer. He failed, was called for margins and was unable to furnish them, so this firm had a right on that day to sell out his pork. As the market was in such a panicky condition they did not sell that day but rendered their customer Account Sales at the average price for the day, selling out his stuff a little at a time day by day, thereafter until it was all sold at somewhat higher prices than those at which they had rendered their account.

In settlement of the account between them and their customer, which figures should be taken—those at which the account was rendered, or those actually realized?

3. Two merchants buying of and selling to each other thus carried on business for some time, rendering to each other accounts the first of every month. These accounts were received without objection, but after a month or two, one of the parties claimed that he had never received and that the other had never delivered to him a considerable bill of goods charged to him in one of these monthly accounts. Being sued therefor he insisted, after the party suing him had proved that the account containing the charge for this bill of goods has been rendered and received without objection, that he must go further and prove the actual sale and delivery of the goods in dispute before he could recover.

What is the law as to this?

4. Are special charters or Acts of Incorporation for corporations for profit allowed in Illinois? Under what laws or general system are such corporations organized?

5. What are the general duties of the president of a corporation in this State and what is the general nature of his authority?

6. A merchant in Chicago owing a manufacturer in Haverford, Pennsylvania, for a bill of goods, sent to the latter at Haverford, his check drawn on a bank in Chicago for the amount thereof, October 26th. The latter received the check the 28th at Haverford, but keeping no bank account there, although there was a bank in that place, sent the check that day to his office in Philadelphia, where he transacted his banking business, where it arrived on the morning of the 29th. It was deposited that day in a Philadelphia bank to the credit of the manufacturer and sent on to Chicago for collection in due course, so that it could be presented for payment on October 31st. The bank on which it was drawn closed its doors the evening of the day before and when the check was sent around the morning of the 31st to the bank on which it was drawn, the latter had failed and was not open at all that day. If the check had been deposited at Haverford the day it was received there it would have reached Chicago in time to be presented for payment to the bank on which it was drawn while that bank was open. The drawer of the check had on deposit in that bank funds more than sufficient to pay all his checks. Under these circumstances who must bear the loss if any—the drawer of the check, or the payee to whom it was sent?

7. Can a corporation in Illinois organized to build and operate a railway, carry on the business of keeping a dry goods store? Give reasons for your answer and state the general principle applicable.

8. Define the drawer of a bill of exchange, the payee and the acceptor.

9. What is corporate stock and how does it differ from corporate bonds?

10. What is a partnership and how does it differ from a corporation?

CHICAGO, ILL., MAY 5, 1909.

(Time 3 Hours.)

1. How may a partnership at will be dissolved when the partnership agreement does not refer to this subject? Under what circumstances generally may a partnership for a definite term be dissolved before the term has expired, and how can such dissolution be compelled?

2. Is a contract for the sale of corporate stock, bonds, or other personal property valid under the law of Illinois if oral and not in writing, and what generally is the law elsewhere on this point, if you know?

3. V. C. Turner agreed upon sufficient consideration that on or before a certain day George Schneider might, if he so elected, buy of him 500 shares of stock in the North Division Street Ry. Co., at $500 per share. Before the stipulated date Schneider tendered the agreed price and demanded the stock. The contract was made and was to be performed in Chicago. Was it valid? Give reasons.

4. The president of an Illinois corporation went to a bank in Chicago and requested a loan on his note for $10,000 for his personal benefit. The Bank President said he would make the loan if the directors of the borrower's Company would authorize the borrower to endorse it in the name of the company. They did so, the endorsement was made, the Bank discounted the note and paid the proceeds to the maker. He failed to pay it, proper demand was made and notice of non-payment given. Is the endorsement binding on the Company? Give reasons for your answer.

5. Under what laws are National Banks organized and controlled, that is, under the laws of what sovereignty or government?

6. Can a National Bank loan money on real estate security? If it does, can a borrower who has given a real estate mortgage to secure such a loan, defeat the lien of the Bank on the real estate covered by the mortgage?

7. What are days of grace on commercial paper at common law? Are they allowed by the law of Illinois?

8. If a man is interested in the profits of a business, is he necessarily a partner therein? If you answer this question in the negative, give an illustration of when a party so interested would not be a partner.

9. Suppose a stock broker buys or sells stocks for a customer in Chicago when he has no broker's license, as required by the ordinances of that City. Can he recover his commissions on such transaction?

10. Can a corporation be organized in Illinois under the laws of that state to deal in real estate?

CHICAGO, ILL., MAY 4, 1910.

(Time, 3 Hours.)

1. What is a contract? Name the essential elements of a valid contract.

2. What is the difference between the obligations and liabilities of a general partner in a partnership and a stockholder in a private corporation organized for pecuniary profit under the law of Illinois?

3. What is a limited partnership under the law of Illinois? State the difference between the obligations of limited partners and general partners under the Illinois law governing limited partnerships.

4. What are the general powers, under the law of Illinois, of a corporation organized for pecuniary profit? And by whom are those corporate powers exercised? What are the obligations and liabilities of those who shall assume to exercise corporate powers or use the name of a ocrporation, or pretended corporation, without complying with the provisions of the Illinois statute respecting the incorporation of such corporation or pretended corporation?

5. How should an agent sign a contract so as to obligate his principal instead of himself?

6. What is the effect of the certification by a bank of a check drawn upon it, (a) as to the funds of the drawer of the check, (b) as to the rights of the bank respecting the funds evidenced by the check, (c) as to the rights of the drawee of the check?

7. What is the difference between a plain promissory note and a collateral promissory note?

8. Assume collateral to have been deposited with the payee of a promissory note: in the absence of any special contract, what are the duties of the payee before he can convert that collateral

to his own use or apply it, or the proceeds thereof, toward the satisfaction of the debt evidenced by the note?

9. Define the following terms:

(a) Legal tender.
(b) Surety.
(c) Guarantor.
(d) Novation.
(e) Subrogation.
(f) Ultra vires.
(g) Bailment.
(h) Beneficiary.
(i) Demurrage.
(j) Escrow.
(k) Executor.
(l) Administrator.
(m) Conservator.
(n) Chattel mortgage.
(o) Bill of sale.
(p) Power of Attorney.

10. What is the lawful rate of interest on a debt in the State of Illinois, in the absence of a contract fixing the rate? To what rate may the parties contract? What is the penalty in Illinois for usury?

CHICAGO, ILL., DECEMBER 23, 1910.

(Time, 3 Hours.)

1. Name the necessary elements of a valid contract? What contracts under the law of Illinois are required to be in writing? What is the legal effect of attaching a seal to a contract?

2. Prepare a short form of partnership agreement for equal partners. Wherein does a partnership differ from a corporation?

3. What are the general obligations of a common carrier of goods? Of a carrier of persons? What is a bill of lading?

4. What is the Statute of Frauds?

5. How much of the capital stock of a corporation, organized under the laws of Illinois, must be paid in before a charter can be obtained? What are the obligations of a subscriber to the capital stock of a corporation organized under the laws of Illinois respecting payment for the stock subscribed by him?

6. What is the lawful rate of interest in Illinois in the absence of a contract? To what rate may the parties contract?

7. Define the following:

(1) Legal tender.
(2) Bona fide.
(3) Novation.
(4) Recoupment.
(5) Ultra vires.
(6) Non Compos Mentis.
(7) Proxy.
(8) Debenture.
(9) Agent.
(10) Power of Attorney.

State the difference between an administrator and an executor?

8. What is a limited partnership under the laws of the State of Illinois?

9. What are the obligations of a bailee for hire?

10. Wherein does a mortgage differ from a trust deed?

CHICAGO, ILL., MAY 25, 1911.

(Time, 3 Hours.)

1. Define the following:

(a) Accommodation paper.
(b) Bill of exchange.
(c) Demurrage.
(d) Escrow.
(e) Collateral.
(f) Receiver.
(g) Executor.
(h) Administrator.
(i) Conservator.
(j) Guardian.

2. (a) How many incorporators are required to form a corporation for profit under the laws of Illinois?

(b) What is the difference between the liability of a partner and of a stockholder in a corporation?

3. (a) What is the difference between preferred and common stock of a corporation?

(b) Is there any provision of the Illinois law for preferred and common stock?

4. (a) By whom are the directors of a corporation elected under the laws of Illinois?

(b) Under the laws of Illinois, by whom are the By-Laws of a corporation, for profit, made?

5. How should an agent execute a paper in order that it may be binding on his principal and not upon the agent?

6. What is meant by stoppage in transitu, and who can exercise that right?

7. What effect as to the fund in the bank, has the drawing of a check thereon by the depositor and the delivery of the check to the payee?

8. What is the difference between a sale and a consignment?

9. Describe the Statute of Frauds, and state the purpose of its enactment.

10. Prepare a short form of Power of Attorney authorizing the attorney in fact to act generally for the Principal.

CHICAGO, ILL., MAY 31, 1912.

(Time, 3 hours.)

1. State the essential elements of a contract.

2. State the steps necessary to be taken to complete the organization of a corporation for pecuniary profit under the laws of Illinois.

3. Submit a short draft of articles of copartnership between two partners each contributing an equal amount of capital.

4. What is the legal effect of the certification of a check drawn upon a bank (a) as to the bank upon which it is drawn; (b) as to the funds of drawer against which the check is drawn?

5. Define the following terms:

(a) Trustees.
(b) Trust deed.
(c) Debenture.
(d) Executor.
(e) Administrator.
(f) Legal tender.
(g) Non compos mentis.
(h) Guarantor.
(i) Bill of Exchange.
(j) Surety.

6. Under the law of Illinois, can a corporation be organized to construct a building for office purposes?

7. What proportion of the stock of a corporation organized for pecuniary profit under the laws of Illinois must be paid in before the certificate of complete organization issues?

What proportion of the increase of the capital stock of a corporation must be paid in at the time of the subscription thereto?

8. Define a limited partnership under the laws of Illinois.

9. Submit a draft of a short form of negotiable promissory note.

10. What is the difference between a partnership and a corporation as affecting the liability of the partners and stockholders?